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The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act

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The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act

Abstract

In the spring of 2010, the Hamline Law Review hosted a symposium to mark the thirtieth anniversary of the adoption of the Uniform Trade Secrets Act. This article was written for the symposium and provides an exhaustive and detailed account of the historical context and drafting history of the Uniform Trade Secrets Act (the UTSA).

Among other stories that it tells, the article explains that the UTSA was prompted by the “Erie/Sears/Compco squeeze.” Because of the Supreme Court’s famous decision in *Erie R.R. Co. v. Tompkins* in 1938, it was understood by business interests and their attorneys that the common law development of unfair competition law would have to occur at the state level. However, when the Supreme Court rendered its decisions in the *Sears/Compco* cases in 1964, the development of unfair competition law at the state level came to a screeching halt. This led to various efforts to fill-the-gap, including a number of proposals for a federal unfair competition law that, in some iterations, included a prohibition on trade secret misappropriation.

As detailed in the article, another impetus behind the development of the UTSA was the business community’s dissatisfaction with the pace of development and features of the common law of trade secrecy. Importantly, concern was expressed about the risks that trade secret rights would be over-asserted in ways that would unduly quell competition. Thus, care was taken to define trade secrets and available injunctive relief in ways that limit the scope of trade secret protection. In this regard, the drafters of the UTSA were guided by the Supreme Court’s decision in *Kewanee Oil Co. v. Bicron Corp.* which counsels against broad trade secret protection.

Keywords

Trade secrets, Unfair competition, Uniform Trade Secrets Act, Unfair trade practices, Intellectual property

Disciplines

Antitrust and Trade Regulation | Intellectual Property Law

THE EVOLUTION OF TRADE SECRET LAW AND WHY COURTS COMMIT ERROR WHEN THEY DO NOT FOLLOW THE UNIFORM TRADE SECRETS ACT

*Sharon K. Sandeen**

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* Professor of Law, Hamline University School of Law, St. Paul, Minnesota. The detailed history of the Uniform Trade Secret Act that is set forth in this article would not have been possible without the help and cooperation of the American Bar Association and the Uniform Law Commission. Each organization gave me access to their historical records and provided me with copies of pertinent documents. I particularly wish to acknowledge and thank, Richard Collins, the Librarian/Record Supervisor at the American Bar Association and Katie Robinson, Communications Officer at the Uniform Law Commission for their hospitality and assistance when I visited their offices in December 2009. Thanks must also be extended to numerous research assistants who, through the years, helped me to compile reams of records and research concerning the drafting history of the UTSA, including Nick Datzov, Kristy Evans, Kris Huether, Karly Kauf, Tricia Niebuhr, Daniel Nielsen, Emily Sipiorski, Amanda Skorr, Angela Smelund, and Caren Stanley.

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I. INTRODUCTION

All laws evolve. Typically, in the case of tort law, the development of the law begins with the commission of a perceived wrong that leads someone to file a lawsuit alleging harm, followed by the decision of society (often through the agency of courts) to provide one or more remedies. As anyone who has studied the development of the tort of negligent infliction of emotional distress can attest, although an individual may be hurt by the wrongdoing of another, it often takes decades for a cause of action to be recognized by courts or codified in a statute.¹ Then, even when one or more states recognize a cause of action for the alleged wrongdoing, other states may be slow to follow their lead or may reject the new cause of action altogether.² Among those states that are willing to recognize a new tort, the parameters of the cause of action (including applicable defenses) may be defined so that the availability of relief is narrowly circumscribed. To the chagrin of business interests, sometimes new torts are defined too broadly or imprecisely so that it is difficult to determine where potential liability begins and ends.

In theory, the fits and starts and ebbs and flows of the evolutionary process of the law reflect societal values. Although it has been said, "for every wrong, there is a remedy," there are differing perceptions about what

¹ See 2 DAN B. DOBBS, *THE LAW OF TORTS*, TOPIC C, *NEGLIGENT INFLICTION OF EMOTIONAL DISTRESS* (West 2001) (providing a brief history of the development of the tort of negligent infliction of emotional distress).

² See, e.g., Kevin E. Bry, *Genuinely Distressing: Illinois' Failure to Allow a Cause of Action for Emotional Injuries Caused By Negligent Mishandling of a Corpse*, 23 J. MARSHALL L.A. REV. 353 (1990) (discussing limits that the courts of Illinois placed on a claim for negligent infliction of emotional distress); Joseph Matye, *Bystander Recovery for Negligent Infliction of Emotional Distress in Missouri*, 60 UMKC LAW REV. 169 (1991) (discussing the reluctance of Missouri Courts to recognize a claim for negligent infliction of emotional distress suffered by a bystander). Cf. *Roberson v. Rochester Folding Box Co.*, 64 N.E. 442 (N.Y. 1902) (providing an example of the slow reception of a new tort by demonstrating that New York courts refused to recognize a claim for invasion of privacy under common law following the publication of Samuel Warren and William Brandeis, *The Right of Privacy*, 4 HARV. L. REV. 193 (1890)); *Lake v. Wal-Mart Stores, Inc.* 582 N.W. 2d 231 (Minn. 1998) (demonstrating that Minnesota only recognized three of the four privacy torts in 1998, more than 100 years after Warren's and Brandeis's famous article); but cf. *Pavesich v. New England Life Insurance Co.*, 50 S.E. 68 (G.A. 1905) (demonstrating that other states, such as Georgia, recognized claims for invasion of privacy).

constitutes cognizable wrongdoing and cognizable harm, and these perceptions can change over time.³ Generally, courts and legislatures have been reticent to recognize new causes of action merely because someone or some interest was harmed in some way.⁴ In addition, they usually require that the acts of the defendant be deemed blameworthy or, in the case of non-contract based causes of action, "tortious."⁵ For the injured plaintiff who is denied a remedy, this may seem like a cruel result but, in theory, it reflects a balancing of competing interests. As a society, we cannot afford to give everyone who suffers from the slings and arrows of life relief in a court of law. Even where a cause of action is created, we often limit its reach to accommodate other societal interests that are deemed more important.

The law of unfair competition, of which trade secret law is a part, has evolved like other principles of tort law. In its early incarnations, businessmen complained of various activities by competitors that caused them harm. Their first challenge was to articulate some behavior by the defendant that was blameworthy and resulting harm that common law or equity courts deemed deserving of relief. When a plaintiff's complaints focused on the consequences of competition, judges were reticent to recognize any cause of action or entitlement to relief.⁶ The ability of the plaintiff to operate a successful business was considered insufficient to outweigh the important societal value of free competition. However, as businesspeople were able to explain how their competitor's actions crossed the line from "fair" to "unfair" competition, the common law of unfair competition, including trade secret law, began to emerge.⁷ As it did, two countervailing concerns arose: how to ensure that the emerging business torts were recognized and defined consistently throughout the United States; and

³ See Jonathan M. Hoffman, *Questions Before Answers: The Ongoing Search to Understand the Origins of the Open Courts Clause*, 32 RUTGERS L.J. 1005 (2001) (discussing the history of the principle that every wrong deserves a remedy and its inclusion in the constitutions of thirty-nine states); David Schuman, *The Right to a Remedy*, 65 TEMP. L. REV. 1197 (1992) (discussing the origins of state constitutional "remedy guarantees, also known as 'open courts clauses'").

⁴ See generally G. EDWARD WHITE, *TORT LAW IN AMERICA: AN INTELLECTUAL HISTORY* (2003).

⁵ RESTATEMENT (FIRST) OF TORTS § 6 (1934) (stating that "tortious" denotes "conduct whether an act or omission [that] is of such a character as to subject the actor to liability under principles of the law of torts").

⁶ RESTATEMENT (FIRST) OF TORTS § 1 cmt. a (acknowledging reticence by recognizing a privilege to compete: "The freedom to engage in business and to compete for patronage of prospective customers is a fundamental premise of the free enterprise system."); accord RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 1 cmt. a. (1995) (providing further support by framing competition as a right rather than a privilege).

⁷ See, e.g., RESTATEMENT (FIRST) OF TORTS, Division Nine, interference with Business Relations (1939); HARRY D. NIMS, *THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS* (4th ed. 1947); Rudolf Callman, *What is Unfair Competition?*, 28 GEO. L.J. 585 (1940). See also, RISDALE ELLIS, *TRADE SECRETS* § 9 (1953) (noting "the line of demarcation between fair and unfair competition is uncertain and may change from one decade to the next").

how to limit the scope of business torts so that they would not become anticompetitive weapons.

Having emerged from the common law, trade secret law could have continued to develop through the common law process like a variety of other torts. In such case, the courts of each state would have had the freedom to accept or reject various arguments for the recognition, expansion, or narrowing of trade secret law as they saw fit, subject to principles of *stare decisis* and the direction (if any) of legislatures. For a variety of reasons, however, the evolution of trade secret law shifted from the crucible of the courtroom and the common law process to the uniform lawmaking and legislative processes. This article tells the story of that shift and how, as a result, the channels in which the courts of most states can operate when interpreting and applying U.S. trade secret law were confined by the adoption of the Uniform Trade Secrets Act (the UTSA).⁸

The story of the evolution of trade secret law begins in Part II with a brief examination of the development of trade secret law at common law up through the publication by the American Law Institute of the Restatement (First) of Torts, Volume IV in 1939 (hereinafter referred to as “the Restatement First”).⁹ Part III then examines the forces and concerns that motivated members of the Patent, Trademark, and Copyright Section of the American Bar Association (“the PTC”) to begin drafting a uniform law of trade secrecy and the subsequent referral of that work to the National Council of Commissioners of Uniform State Law (“NCCUSL”).¹⁰ Part IV seeks to cure deficiencies that exist in the interpretation and application of trade secret law by providing a detailed history of the context, purpose, and intended meaning of the UTSA.¹¹ To understand the purpose and significance of the UTSA fully, Part V discusses the important differences between the common law—particularly as expressed in a Restatement—and a codified, uniform law.¹²

Generally, the idea for a uniform act to govern trade secrets arose among the practicing bar as part of an extensive and long-term exploration of laws governing unfair competition. For more than twenty-five years, from

⁸ See UNIF. TRADE SECRETS ACT (1985); see also National Conference of Commissioners of Uniform State Laws, http://www.nccusl.org/Update/uniformact_factsheets/uniformacts-fs-utsa.asp (last visited Dec. 28, 2010) (demonstrating that the UTSA has been adopted in forty-five states, the District of Columbia and the U.S. Virgin Islands, and that the five states that have yet adopted the UTSA are Massachusetts, New York, New Jersey, North Carolina, and Texas); but see also JAMES POOLEY, TRADE SECRETS §2.03[7][a] (1997) (demonstrating that how one counts adoptions apparently depends upon how the trade secrets statutes are labeled and stating that 43 states have adopted the UTSA, with 3 others adopting trade secret statutes not patterned on the UTSA).

⁹ See *infra* Part I.

¹⁰ See *infra* Part II. The PTC is now known as the Intellectual Property Section of the American Bar Association. NCCUSL is also known under its new, updated brand: The Uniform Law Commission.

¹¹ See *infra* Part III.

¹² See *infra* Part IV.

the early-1940s through the mid-1960s, the practicing bar was extremely concerned that the U.S. Supreme Court's decision in *Erie Railroad Co. v. Tompkins* precluded the common law development of unfair competition law at the federal level.¹³ Later, with the Supreme Court's decision in the *Sears/Compco* cases, the practicing bar worried that state unfair competition law, including trade secret law, would disappear altogether.¹⁴ The idea to adopt a uniform trade secrets act—as well as the Lanham Act of 1946,¹⁵ the Uniform Deceptive Trade Practices Act (the UDTPA),¹⁶ and the Uniform Trademarks Act,¹⁷—grew out of what is referred to herein as “the *Erie/Sears/Compco* squeeze” and the business community's interest in well-defined, predictable, and uniform business torts.¹⁸

Although the initial impetus behind the adoption of the UTSA was concern that *Erie* prevented the development of a federal body of unfair competition law, ultimately the drafters of the UTSA saw an opportunity to alter the speed and course of development of the common law of trade secrecy.¹⁹ The use of statutes to change, and hopefully improve, the law is a common story in the evolution of the law. Businesses often prefer statutory law to common law because statutes can be used to secure legal protection for interests that common law courts are slow to recognize. Statutes are also used to modify existing legal principles by, for instance, limiting the scope of established legal rights or more clearly defining the parameters of such rights in order to add consistency, predictability, and uniformity. When legislatures

¹³ See generally *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938).

¹⁴ See generally *Compco Corp. v. Day-Brite Lighting, Inc.* 376 U.S. 234 (1964) (effectively restricting the ability of states to fashion unfair competition laws); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964).

¹⁵ Lanham Act of July 5, 1946, ch. 540, 60 Stat. 427 (1946) (codified as amended at 15 U.S.C. §§ 1051–1141 (2010)).

¹⁶ National Conference of Commissioners on Uniform State Laws, Revised Uniform Deceptive Trade Practices Act (1966) (replacing the act that had first been adopted in 1964). See also Richard F. Dole, *Uniform Deceptive Trade Practices Act: Effect of Sears Compco*, 55 TRADEMARK REP. 267 (1965).

¹⁷ See H. Bowen Wands, *Priority: Lanham Act or Model State Trademark Bill*, 58 TRADEMARK REP. 801 (1968) (noting that a Model State Trademark Bill had been adopted in thirty-six states).

¹⁸ JAMES WILLARD HURST, *DEALING WITH STATUTES* 12 (1982) (commenting on the shift from the common law development of the law to the legislative process: “Legislation bulked larger in social regulation when more numerous and varied interests began to press claims for attention, and when politically effective opinion sensed a need to bring more factors into policy calculations”).

¹⁹ UNIF. TRADE SECRETS ACT, Prefatory Note (1985) (“Notwithstanding the commercial importance of state trade secret law to interstate business, this law has not developed satisfactorily. In the first place, its development is uneven. . . . Secondly, even in states in which there has been significant litigation, there is undue uncertainty concerning the parameters of trade secret protection, and the appropriate remedies for misappropriation of a trade secret.”). See also John P. Sutton, *Trade Secret Legislation*, 9 IDEA 587, 590 (1965–1966) (after noting the confused state of trade secret law, particularly with respect to its theoretical basis, Mr. Sutton stated: “It therefore would appear propitious that legislation is pending to bring some degree of order out of chaos”).

heed the call for more consistency, predictability, and uniformity, judges should take notice and discontinue the common law development of the law as appropriate. Once a body of law is codified—as is the case with trade secret law as expressed in the UTSA—it is the statute itself and not the old common law that should govern.²⁰

II. THE COMMON LAW EVOLUTION OF U.S. TRADE SECRET LAW: 1837 THROUGH 1939

Based upon a review of the cases cited in the Appendix to the Restatement First, the development of trade secret law in the United States began in 1837 with the case of *Vickery v. Welch*, and was based on principles of law and equity first developed by English courts.²¹ Two essential questions confronted early courts in trade secret cases. First was whether the actions of the defendant were sufficiently wrongful to justify relief. As one court framed the issue, “[t]he distinction lies between pirating and competing for customers.”²² If the first question was answered affirmatively, the nature of appropriate relief had to be determined. Because a distinction existed in the early history of the United States between courts of law and courts of equity, the question of appropriate remedies often boiled down to the court where the action was filed and how the case was characterized.²³

The general complaint of early plaintiffs was that the defendant

²⁰ See RESTATEMENT (THIRD) OF UNFAIR COMPETITION, Introductory Note (1995) (demonstrating that the Restatement (Third) of Unfair Competition, which replaced the unfair competition provisions of the Restatement (First) of Torts, recognizes the importance of statutory enactments by basing most of its content concerning trade secrets on the UTSA); see also David S. Almeling, et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZ. L. REV. 291 (2010) (providing empirical evidence that the influence of the Restatement (First) of Torts may be waning). But see ROGER M. MILGRIM & ERIC E. BENSON, MILGRIM ON TRADE SECRETS § 1.01[1] (2009) (“Despite the UTSA’s widespread adoption, the Restatement [First] Definition [of trade secrets] retains vitality and is often referred to by courts during the course of their deliberation in applying the UTSA.”); POOLEY, *supra* note 8, at § 2.02[3] (noting that even courts interpreting the UTSA continue to refer to the Restatement (First) of Torts).

²¹ *Vickery v. Welch*, 36 Mass. 523 (1 Pick. 1837); see also *Peabody v. Norfolk*, 98 Mass 452 (Mass. 1868) (citing to numerous pertinent English cases) and Catherine L. Fisk, *Working Knowledge: Trade Secrets, Restrictive Covenants in Employment, and the Rise of Corporate Intellectual Property, 1800-1920*, 52 HASTINGS L.J. 441 (2000).

²² *Newark Cleaning & Dye Works, Inc. v. Gross*, 126 A. 789 (N.J. 1925).

²³ ELLIS, *supra* note 7, at 4 (“In general, protection given trade secrets is based on common law and equity and not on statutory provisions.”); see also T. Leigh Anenson, *Treating Equity Like Law: A Post-Merger Justification of Unclean Hands*, 45 AM. BUS. L.J. 455, 456 (2008) (noting that the merger of law and equity in the United States began with the New York Field Code in 1848 and culminated in the Federal Rules of Civil Procedure almost one hundred years later); John R. Kroger, *Supreme Court Equity, 1789-1835, and the History of American Judging*, 34 Hous. L. REV. 1425 (1998) (providing a good history of the division of courts of law and courts of equity in the early history of the United States); see also, e.g., NIMS, *supra* note 7, § 143 (“Equity will restrain breach of a contract not to disclose a trade secret.”).

caused or threatened to cause harm to plaintiff's business by using or disclosing secret information. For instance, in *Vickery v. Welch*, the plaintiff complained that the defendant threatened to disclose the art and secret manner of making chocolate.²⁴ Because courts were unwilling to find an absolute property interest in secret information, the success of early trade secret cases depended upon the existence of an express or implied agreement of confidentiality or breach of faith.²⁵ As the Court in *Peabody v. Norfolk* explained:

If he invents or discovers, and keeps secret, a process of manufacture, whether a proper subject for a patent or not, he has not indeed an exclusive right to it against the public, or against those who in good faith acquire knowledge of it; but he has a property in it, which a court of chancery will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons.²⁶

As a matter of equity, the defendant in *Peabody* was bound by an agreement of confidentiality not to disclose information about the machines and processes used to make gunny cloth.²⁷

The existence of secret information coupled with an express or implied agreement of confidentiality made it easy for common law courts to impose liability on individuals or companies who were parties to the agreement because breach of contract and breach of trust were well-recognized wrongs. The more difficult issue for some courts was to determine if secret information actually existed.²⁸ This led to the development of principles for differentiating between protectable information and unprotectable information, including the concept of reasonable efforts to maintain secrecy.²⁹ In *Hamilton Manufacturing Co. v. Tubbs Manufacturing Co.*, for instance, the Court was careful to distinguish between secret information on one hand and public information, general skill, and knowledge on the other.³⁰ The Court noted:

²⁴ *Vickery*, 36 Mass. at 525–26.

²⁵ See, e.g., *Morison v. Moat*, 68 E.R. 492 (Ct. of Chancery 1851) (“What we have to deal with here is, not the right of the Plaintiffs against the world, but their right against the Defendant”); *Stewart v. Hook*, 45 S.E. 369, 370 (Ga. 1903) (“The property right in an unpatented preparation, however, is not an unqualified one, and is only exclusive until, by publication, it becomes the property of the public.”).

²⁶ *Peabody v. Norfolk*, 98 Mass. 452, 458 (Mass. 1868); see also BLACK’S LAW DICTIONARY 247 (8th ed. 2004) (demonstrating that a “chancery courts” were courts of equity).

²⁷ *Peabody*, 98 Mass. at 452–53.

²⁸ *Tabor v. Hoffman*, 23 N.E. 12 (N.Y. 1889).

²⁹ See, e.g., *Schavoir v. American Rebonded Leather Co.*, 133 A. 582 (Conn. 1926); *Hamilton Mfg. Co. v. Tubbs Mfg. Co.*, 216 F. 401, 401–06 (W.D. Mich. 1908); *Stone v. Goss*, 55 A. 736, 737 (N.J. 1903); *Tabor*, 23 N.E. at 12; *McClary v. Hubbard*, 122 A. 469 (Vt. 1923).

³⁰ *Hamilton Mfg. Co.*, 216 F. 401.

There can be no property in a process, and no right of protection, if knowledge of it is common to the world. It would be a violation of every right of an employee of a manufacturer to prevent the former from using, in a business of his own, knowledge which he acquired in the employ of the latter when he might have acquired such knowledge in the employ of other manufacturers. Indeed, a contract not to do so would probably fail of enforcement because of a restraint of trade.³¹

Another issue that arose in early trade secret cases was the extent to which an individual's duty of confidentiality could be imposed upon third parties. Because a critical element of trade secret cases was the existence of an express or implied obligation of confidentiality, individuals and companies that were not in privity of contract with the contracting parties, or that were not otherwise subject to a duty of trust, could not be held liable for using or disclosing a plaintiff's secrets. This limitation on the scope of the duty of confidentiality led to the development of theories of third party liability that generally required the third party to have knowledge of both the existence of a trade secret and the duty of confidentiality. For instance, in *Stone v. Goss*, after first finding that plaintiff's former employee, Goss, was under a duty of confidentiality, the Court imposed a similar duty on Goss's new employer due to its intention to acquire plaintiff's secret information.³² Similarly, in *Vulcan Detinning Co. v. American Can Co.*, the Court imposed a duty of confidentiality on an original incorporator of the plaintiff due to, among other things, his knowledge of the fact that the secrets had been acquired at great expense from another.³³

Early courts were also troubled with issues of standing. If the wrong committed was "unfair competition," then they were reluctant to grant relief to plaintiffs who were not in competition with the alleged wrongdoer. As explained in a 1941 article by the President of the Federal Trade Commission:

The early view in this country, as in many others, limited [unfair competition] primarily to cases of passing off the product of one competitor as and for another. Today's broad view of the term as used in the United States embraces not only all business practices deemed to be legally unfair to competitors or business rivals, but also those considered to be unfair to the public generally . . .³⁴

By the time the American Law Institute published volume IV of the Restatement First in 1939, the common law of trade secrecy had developed

³¹ *Id.* at 407.

³² *Stone*, 55 A. 736.

³³ *Vulcan Detinning Co. v. Am. Can Co.*, 67 A. 339 (N.J. 1907).

³⁴ Robert E. Freer, *Some Concepts of Unfair Competition at Home and Abroad*, 31 TRADEMARK REP. 51 (1941).

sufficiently so that a defendant's alleged wrongdoing could be detailed in three sections. As set forth in § 757, a person could be liable for disclosing or using another's trade secret based upon the traditional theory of a breach of confidence, but also because of: (1) discovery by improper means; (2) acquisition of the secret by a third party with notice of the fact of secrecy and the duty of confidentiality; and (3) acquisition of the secret with notice of the fact of secrecy and knowledge that it was disclosed by mistake.³⁵ Section 758 stated the rule that the innocent discovery of trade secrets is not actionable, but created an exception in cases where the defendant received notice of the misappropriation before a material change in his or her position.³⁶ Section 759 addressed the situation where business information not qualifying as a trade secret is acquired using "improper means," stating that the acquisition of such information by improper means was actionable if it was "for the purpose of advancing a rival business interest."³⁷

Although the trade secret provisions of the Restatement First attempt to summarize the state of trade secret law circa 1939, what is more telling is the content and organization of the commentary that follows each section. While trade secret law had developed so that three forms of wrongdoing could be set forth in §§ 757 through 759, the precise parameters and details of a cause of action were left to be developed and refined by common law courts. Rather than state specific rules within the text of the trade secret provisions themselves—apparently because the law had not evolved sufficiently in enough states to allow them to do so—the drafters of the Restatement First only identified key issues and provided suggestions for their possible resolution.³⁸ As noted in the comments to § 757, these issues included: (1) how to balance the privilege to compete with the existence of a trade secret claim; (2) the definition of a trade secret; (3) the circumstances under which a defendant should be held liable for disclosure (as opposed to use) of a trade secret; (4) whether and to what extent a privilege to disclose or use another's trade secrets exists; (5) the nature of available remedies; (6) the meaning of "improper means"; (7) the meaning and scope of a breach of confidence; and (8) the necessary intent or knowledge of the defendant.³⁹

By the time of the adoption of the UTSA in 1979, forty years had passed since the publication of the Restatement First and the drafters of the UTSA had the benefit of the further common law development of trade secret law. Also by then, the courts of law and equity in the United States had merged and there was a much greater reliance on and reception of statutory law.⁴⁰ As detailed in Parts III and IV below, because the UTSA is a code rather than a restatement of existing law, it was used to fill gaps in the

³⁵ RESTATEMENT (FIRST) OF TORTS § 757 (1934).

³⁶ *Id.* § 758.

³⁷ *Id.* § 759.

³⁸ See *infra* notes 43–45 and accompanying text.

³⁹ RESTATEMENT (FIRST) OF TORTS § 757, cmts. a–g.

⁴⁰ See *supra* note 23 and accompanying text.

law that had not been filled by common law courts and to refine or change common law principles that were considered ill-advised. With respect to many of the issues that are addressed in the comments to the Restatement First, the drafters of the UTSA substituted the flexible guidelines of the Restatement's comments with mandatory rules.

III. THE IMPETUS BEHIND THE UTSA

Between 1939 and 1988, the Restatement First was the primary source for an understanding of the purpose and meaning of trade secret law in the United States.⁴¹ Given the long history of the development and application of common law trade secret principles in the United States—roughly from the date of the first trade secret cases in the mid-1800s through the mid-1960s when the UTSA drafting process began—one may wonder why members of the practicing bar felt compelled to advocate for the adoption of a uniform law to govern trade secrets. By the mid-1960s, in addition to the Restatement First, there were plenty of judicial decisions and several treatises available to judges and lawyers that could be consulted to explain the current parameters of U.S. trade secret law.⁴² Why then the need for a uniform trade secret law that was recommended for adoption in all fifty states?

One answer stems from the slow pace and frequently inconsistent development of the common law, and the impatience of individuals and companies who believed that their interests were not adequately protected.⁴³ Although business interests may at first be reluctant to embrace the development of new torts, particularly personal injury torts, the history of unfair competition law reveals that there is often a point in time in the development of business torts when business interests prefer to embrace a clearly defined, predictable, and uniform cause of action instead of being subjected to the uncertainty of amorphous and ill-defined common law torts. Indeed, this is one of the reasons for the merger of courts of law and equity; the unpredictability of equity courts was uncomfortable to many.⁴⁴ The

⁴¹ See ALASKA STAT. §§ 45.50, 910–45 (demonstrating that the UTSA became the predominate law governing trade secrets in the United States when it went into effect in Alaska—the twenty-sixth state to adopt the UTSA—on September 2, 1988).

⁴² See ELLIS, *supra* note 7; NIMS, *supra* note 7, at Ch. XI (concerning trade secrets); *Developments in the Law: Competitive Torts, IV. Misappropriation of Commercial Intangibles, B. Trade Secrets*, 77 HARV. L. REV. 947 (1964). See also ROGER MILGRIM, MILGRIM ON TRADE SECRETS (1st ed. 1968).

⁴³ Julius R. Lunsford, *Unfair Competition: Uniform State Act Needed*, 44 VA. L. REV. 583 (1958) (describing the slow pace of unfair competition law post *Erie* and the Lanham Act).

⁴⁴ See CHARLES M. COOK, THE AMERICAN CODIFICATION MOVEMENT; A STUDY OF ANTEBELLUM LEGAL REFORM, 185–86 (1981) (“The retention of the inherited dual court system—law and equity—in [NY] was the cause of much uncertainty as to the proper mode of redress and, consequently, a source of additional bitter complaint.”).

power of state and federal legislatures to enact laws gives those who are frustrated with the uncertainty and pace of the common law the ability to speed up or change the development of the law to better suit their interests.⁴⁵ This power became particularly important to the practicing bar as a result of the U.S. Supreme Court's landmark decision in *Erie Railroad Co. v. Tompkins* in 1938.⁴⁶

A. The Effect of Erie

More than seventy-years removed from the U.S Supreme Court's landmark decision in *Erie* and the subsequent enactment of numerous federal laws under Congress's Commerce Clause power, it is perhaps hard to imagine the uproar that *Erie* caused among the practicing bar and U.S. business interests.⁴⁷ Precisely at the time that business and industry was becoming less localized and more national and international, and the need for national legal standards became more pronounced, the Supreme Court ruled that, "there is no federal general common law."⁴⁸

Although the *Erie* decision had implications for all rulings of the federal judiciary in diversity cases, its impact upon the law of unfair competition was of particular concern to U.S. business interests. Initially, the concern related to the inability to rely upon federal precedents to define the parameters of unfair competition in the United States. Because of *Erie*, the federal judiciary was out of the business of developing the common law except in connection with the interpretation and application of federal

⁴⁵ See Edward S. Rogers, *New Concepts of Unfair Competition*, 38 TRADEMARK REP. 259, 269-70 (1948), reprinted in 54 TRADEMARK REP. 752 (1964) ("Experience shows that by the time the judicial machinery reaches a place where the pirate was yesterday, and is ready to deal with him, that elusive person has moved forward and is still a little ahead—at a place where the courts will not reach until tomorrow—and is there engaged in doing something which will enable him to advantage himself at someone else's expense in some manner hitherto unthought of.").

⁴⁶ *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938).

⁴⁷ See E. Manning Giles, *Unfair Competition and the Overextension of the Erie Doctrine*, 41 TRADEMARK REP. 1056 (1951); John R. Peterson, *The Legislative Mandate of Sears Compco: A Plea for a Federal Law of Unfair Competition*, 56 TRADEMARK REP. 16 (1966); Harry Shulman, *The Demise of Swift v. Tyson*, 47 YALE L.J. 1336 (1938); Sergei S. Zlinkoff, *Erie v. Tompkins: In Relation to the Law of Trade-marks and Unfair Competition*, 32 TRADEMARK REP. 81, 99 (1942); Rogers, *supra* note 45, at 259. See also, *The Proposed Federal Unfair Competition Statute, Brief in Support of Congressional Passage of Proposed Unfair Competition Amendment to Lanham Trademark Act of 1946*, 57 TRADEMARK REP. 87 (1967) [hereinafter *Brief in Support of Congressional Passage*].

⁴⁸ *Erie*, 304 U.S. at 78; see Statement of W.G. Reynolds in support of Unfair Activities Bill, 54 TRADEMARK REP. 785 (1964) (noting the "swing to direct selling," the increased importance of advertising, and the "mushrooming of supermarkets" as creating a new economic environment where federal principles of unfair completion are needed). See also Peterson, *supra* note 47, at 25 ("The result of *Erie* in the field of unfair competition, has been a bewildering hodge-podge of conflicting decisions which defies harmonization into a uniform national body of law.").

statutes, meaning that the development and refinement of unfair competition law was left to state courts.⁴⁹ However, “the rub was that state law marked time during the period that federal law was evolving” and had not developed sufficiently or consistently.⁵⁰ Thus, as *Erie* forced lawyers and their clients to learn more about principles of unfair competition at the state level, the concern about the irrelevance of federal precedents was replaced by a fear about the actual details (or lack thereof) of state law. As explained in an influential 1948 article by Edward S. Rogers:

Soon there was built up by decisions of the Federal Court a great body of Federal Law dealing with trademarks and unfair competition. It was a great convenience to the bar because lawyers knew or could easily learn what the decisions were and there were enough of them to give a comprehensive picture. Then came *Erie* . . . which required Federal Courts to apply the law of the State in which they sit, and there was chaos. There were 48 different sovereignties, the decisions of whose courts were the only law. The body of Federal decision which was 50 years evolving was not binding either on the State or the Federal Courts. Nobody knew what the law was. It was frequently found that there were no applicable State decisions or that the decisions in the States comprising the same circuit were not uniform.⁵¹

Some of the concerns regarding the gaps in unfair competition law that resulted from *Erie* were resolved with the enactment in 1946 of the Lanham Act.⁵² However, concerns about the scope of federal trademark law, and more broadly unfair competition law, continued to persist among the practicing bar for more than twenty years.⁵³ Heeding the original call of

⁴⁹ See Giles, *supra* note 47, at 1056 (discussing the difference between “federal general common law” and “federal common law” and noting the power of federal courts to construe and supplement federal statutory law).

⁵⁰ National Conference of Commissioners of Uniform State Laws, Revised Uniform Deceptive Trade Practices Act, Prefatory Note (1966) (reprinted as Richard Dole, *Uniform Deceptive Trade Practices Act: Effect of Sears Compco*, 55 Trademark Rep. 267, 435–36 (1965)).

⁵¹ Rogers, *supra* note 45, at 259; see Louis Kunin, *The Lindsay Bill Before and After the Stiffel Case*, 54 TRADEMARK REP. 731, 736 (1964) (“Federal unfair competition legislation to counteract the effects of *Erie* was suggested by Mr. Edward S. Rogers speaking before the Practising Law Institute at New York City in 1947.”); see also Rogers, *supra* note 45, at 271 (demonstrating that Mr. Rogers’s proposed legislation included a broad and flexible definition of unfair competition, coupled with a list of specific acts of wrongdoing including the act of “inducing disclosure of confidential information” and “any other act or deed contrary to good faith or honorable commercial usage.”).

⁵² Lanham Act of July 5, 1946, ch. 540, 60 Stat. 427 (1946) (codified as amended at 15 U.S.C. §§ 1051–1141 (2010)). Cf. H. M. McLarin, *The 1941 Revised Lanham Trade-mark Bill, Being a Description and History of the 1941 Revision of the Lanham Trade-mark Bill*, 31 TRADEMARK REP. 87(1941) (giving the reasons for the Lanham Bill, including the need of modern business for more certainty).

⁵³ Lunsford, *supra* note 43, at 583 (lamenting the failure of federal courts to

Edward Rogers, the Association of the Bar of the City of New York began to advocate for the adoption of a federal law to govern unfair competition.⁵⁴ Designed to take advantage of the recently developed *Lincoln Mills* doctrine, the general goal of a federal unfair competition law was “to permit the federal courts to resume the fashioning of a uniform and dynamic body of national unfair competition law without compelling recourse to variegated or inadequate state precedents, i.e., ‘checker-board law.’”⁵⁵

Beginning with the start of the two-year legislative session in 1959, Congress member John Lindsay biennially introduced legislation to enact a federal law of unfair competition that would supplement the Lanham Act.⁵⁶ As set forth in the 1963 version of the bill, the proposed law would allow “any person damaged or likely to be damaged by unfair commercial activities in or affecting commerce” to bring a civil action in federal court to obtain injunctive relief, costs, and reasonable attorneys’ fees.⁵⁷ Unfair commercial activities were defined to include “the commission for purposes of profit of any . . . act or practice which . . . violates reasonable standards of commercial ethics.”⁵⁸ In order to overcome the reluctance of common law courts to grant relief in cases where there was no direct competition and no proof of actual damages, the legislation further provided that injunctive relief could be granted despite the “absence of competition between the parties or actual damage to the person seeking protection.”⁵⁹

The Lindsay Bill received its first—and apparently only—formal

interpret § 43 of the Lanham Act as a general federal law of unfair competition); Peterson, *supra* note 47, at 43 (“Even as the Lanham Act was achieving judicial recognition as a limited federal law of unfair competition, work commenced upon presentation of a separate federal code of unfair competition.”).

⁵⁴ Peterson, *supra* note 47, at 43; see also Kunin, *supra* note 51, at 736 (“From Mr. Rogers’ first draft, after several years of work commenced by the Committee on Trademarks and Unfair Competition of the Association of the Bar of the City of New York, there has now evolved the Lindsay Bill. First introduced in the House in 1959, it was widely circulated among professional groups and other interested parties. A revised version was re-introduced in 1961. After further circulation and comment, the Bill was revised again and offered in 1962. Once again, after thorough review by interested groups, additional amendments were made before a current version of the Bill was introduced in both the House and Senate in 1963.”); Sidney A. Diamond, *The Proposed Federal Unfair Commercial Activities Act*, 52 TRADEMARK REP. 104 (1962).

⁵⁵ Kunin, *supra* note 51, at 732–33 (citing the decision of the United States Supreme Court in *Textile Workers Union*, 353 U.S. 448); see also *Textile Workers Union of Am. v. Lincoln Mills of Ala.*, 353 U.S. 448, 456 (1957) (holding that the Labor Management Relations Act of 1947 not only gave federal courts jurisdiction in labor disputes, but enabled federal courts to “fashion a body of federal law” to govern such disputes).

⁵⁶ See H.R. 7833, 86th Cong., 1st Sess. (1959); H.R. 10038, 87th Cong., 2d Sess. (1962); S. 1036, 87th Cong.; S. 2784, 87th Cong.; S. 1038, 88th Cong.

⁵⁷ H.R. 4651 and S. 1038, 88th Cong. 1st Session (1963).

⁵⁸ *Id.* § 3(d).

⁵⁹ *Id.* § 4.

hearing in June of 1964.⁶⁰ Congressman Lindsay explained, "The basic purpose of the bill is to create a Federal statutory cause of action that could be invoked by an injured party as an alternative to the common law tort of unfair competition in cases where interstate commerce is affected."⁶¹ In his testimony in support of the legislation, W.G. Reynolds, then President of the United States Trademark Association, noted that the legislation would fulfill three needs:

(a) a sore need to fill-in missing gaps in existing remedies against unfair commercial activities; (b) a need for modernizing these remedies to cope with drastic changes that have been going on all about us in the field of interstate commerce, and (c) a need for encouragement to reputable businessmen who are bewildered and puzzled by the failure of the present law to provide relief commensurate with the shifting wrongs which they are encountering in their day to day business activities.⁶²

At the same time federal legislation was being pursued, efforts were also undertaken by members of the practicing bar to fill gaps in state unfair competition law through, among other means, the adoption of a number of uniform state laws, including the Uniform Deceptive Trade Practices Act (UDTPA) and state trademark registration acts.⁶³ As explained in the Prefatory Note to the UDTPA:

In 1958 the Section of Patents, Trademark and Copyright

⁶⁰ Walter J. Derenberg, *The Seventeenth Year of Administration of the Lanham Trademark Act of 1946*, 54 TRADEMARK REP. 655 (1964) (noting first hearing on Lindsay Bill and opposition thereto from the Attorney General's Office and the Federal Trade Commission).

⁶¹ Hearings on H.R. 4651 before the Subcommittee on Commerce and Finance of the House Committee on Interstate and Foreign Commerce, 88th Cong., 2nd Session 9 (1964).

⁶² Rogers, *supra* note 45, at 785 (emphasis added).

⁶³ National Conference of Commissioners on Uniform State Laws, Revised Uniform Deceptive Trade Practices Act (1966). Cf. Kunin, *supra* note 51, at 375, 734-35 (demonstrating that other strategies and theories for resurrecting a federal body of unfair competition were attempted without success); e.g. *id.* at 735 (citing National Fruit Prods. Co. v. Dwinell-Wright Co., 47 F. Supp. 499 (D. Mass. 1942)) (explaining that beginning in 1942, there was a series of cases in which plaintiffs argued that § 5 of the Federal Trade Commission Act created a private right of action that would allow individuals and businesses to bring a suit in federal court.); *id.* at 735 (citing Stauffer v. Exley, 184 F. 2d 962 (9th Cir. 1950)) (demonstrating that in 1950, the Ninth Circuit took the position that §§ 44(b), (h), and (i) of the Lanham Act conferred federal jurisdiction over unfair competition claims); *id.* at 734-35 (citing Kemart Corp. v. Printing Arts Research Labs., 269 F. 2d 375 (9th Cir. 1959)) (stating that there was a series of cases, beginning with *Kemart Corp.*, in which it was contended that the unfair competition provisions of the Paris Convention and the Inter-American Convention were self-executing and, therefore, the "supreme law of the land" under the U.S. Constitution and that, as a result, federal courts were authorized to develop a federal body of unfair competition); *id.* at 375 (citing *L'Aiglon Apparel, Inc. v. LanaLobell, Inc.*, 214 F.2d 649 (3d Cir. 1954)) (arguing that § 43(a) of the Lanham Act should be interpreted to cover ordinary cases of passing off and product simulation).

Law of the American Bar Association passed a resolution which stated that "there should be uniformity in the law of unfair competition among the respective states." . . . Since the provisions of the Lindsey Bill and of the Uniform Act are sufficiently similar, the main question is the route by which uniformity is obtained—voluntary adoption by the state legislatures or by a federal act imposing a particular rule on the states.

The Uniform Act is designed to bring state law up to date by removing undue restrictions on the common law action for deceptive trade practices. Certain objectionable practices are singled out, but courts are left free to fix the proper ambit of the act in case by case adjudication.⁶⁴

Thus, in the same way that the Lindsay legislation was designed both to fill the vacuum in unfair competition law that was left by *Erie* and to provide more uniformity, certainty, and clarity in the law of unfair competition at the federal level, the proposed uniform state laws were designed to supplement and change a body of law that was thought to be deficient, including the law of trade secrecy.

B. The Erie/Sears/Compco Squeeze

The need for a federal law to govern unfair competition became more urgent in 1964 as a result of the *Erie/Sears/Compco* squeeze. In the companion cases of *Sears, Roebuck & Co. v. Stiffel Co.* and *Compco Corp. v. Day-Brite Lighting, Inc.*, decided on the same date in March 1964, the U.S. Supreme Court ruled that the unfair competition laws of Illinois which prohibited product simulation, were preempted by federal patent law.⁶⁵ This created a dilemma for business interests concerned about the development of unfair competition law in the United States. Having learned from *Erie* that the federal judiciary had a very limited role to play in the development of common law, the practicing bar was now shocked to learn that the very entities that were charged with developing unfair competition law—state courts and legislatures—were prevented by principles of federal preemption from adopting state laws that interfered with federal patent policies.⁶⁶

John Peterson, then Chairman of the Unfair Competition Committee of the American Patent Law Association (now the American Intellectual Property Law Association) expressed the concerns of the practicing bar:

⁶⁴ Conference of Commissioners on Uniform State Laws, Revised Uniform Deceptive Trade Practices Act (1966).

⁶⁵ See generally *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964).

⁶⁶ See *Ciro A. Gamboni, Unfair Competition Protection after Sears Compco*, 55 TRADEMARK REP. 964 (1965).

The sweeping language of the Court in *Sears* and *Compco* has made it uncertain how these decisions are to be applied in subsequent cases presenting differing factual situations, and whether they are to be limited to cases of product simulation or are to be extended to the whole field of unfair competition.⁶⁷

The practicing bar was so concerned about the impact of the *Sears/Compco* decisions that the United States Trademark Association (now the International Trademark Association or "INTA") regularly reported on developments in the area of state unfair competition in a section of an annual review of the Lanham Act labeled "Unfair Competition and the *Sears-Compco* Doctrine," lauding any decision that appeared to limit application of the *Sears/Compco* doctrine.⁶⁸

An obvious solution to the *Erie/Sears/Compco* squeeze was the enactment of federal legislation along the lines of the Lindsay Bill. However, concerned members of the bar were not content to leave a solution up to Congress, particularly since the Lindsay Bill had not progressed much in five years.⁶⁹ Apparently, the critical difficulty in enacting such a law revolved around the definition of unfair competition. Some proponents of a federal law of unfair competition favored broad, general language that might prohibit still unknown forms of unfair competition. Others were fearful of an open-ended definition, and advocated for the specification of particular wrongful acts. Thus, in addition to federal legislation, various other strategies were pursued including: arguments made in a variety of cases to limit the effects of the *Erie* and *Sears/Compco* decisions; proposed amendments to the Federal Trade Commission Act; and the adoption of a state Uniform Deceptive Trade Practices Act.⁷⁰ Proposals were also made for the adoption of federal legislation to make it clear that patent law was not intended to

⁶⁷ Peterson, *supra* note 47, at 28.

⁶⁸ See, e.g., Bowen Wands, *supra* note 17, at 710; Walter J. Derenberg, *The Twenty-Fifth Year of Administration of the Lanham Act of 1946*, 62 TRADEMARK REP. 393, 499 (Aug. 1972); Walter J. Derenberg, *The Twenty-Fourth Year of Administration of the Lanham Act of 1946*, 61 TRADEMARK REP. 257, 322 (July 1971); Walter J. Derenberg, *The Twenty-Third Year of Administration of the Lanham Act of 1946*, 60 TRADEMARK REP. 387, 462 (Aug. 1970); Walter J. Derenberg, *The Twenty-Second Year of Administration of the Lanham Act of 1946*, 59 TRADEMARK REP. 625, 712 (Aug. 1969); Kenneth B. Germain, *The Thirty-Fourth Year of Administration of the Lanham Act of 1946*, 71 TRADEMARK REP. 285, 495 (July-Aug. 1981); Peterson, *supra* note 47, at 776; *Brief in Support of Congressional Passage*, *supra* note 47, at 735.

⁶⁹ Peterson, *supra* note 47, at 45 ("This Bill, representing a distillation of years of hard and painstaking effort, has produced reactions ranging from enthusiastic support to bitter denunciation . . . it has been attacked for its vagueness, for its failure to give definition to the term 'unfair commercial activity,' and for extending the law beyond the bounds of the Federal Trade Commission Act.").

⁷⁰ *Id.* at 28-48; see also *id.*, at n.181 (giving a history of the Uniform Deceptive Trade Practices Act); *supra* note 68 (providing citations for the *Unfair Competition and the Sears-Compco Doctrine* section in the TRADEMARK REP., which cites cases relevant to this discussion).

preempt state trade secret law.⁷¹ The practicing bar's interest in solving the *Erie/Sears/Compco* squeeze was so great that a "National Coordinating Committee," consisting of over 36 professional associations, was formed for the purpose of finding a solution.⁷² Members of this Committee included the American Patent Law Association, the United States Trademark Association, and the PTC Section of the American Bar Association. In 1966, the PTC decided to consider the need for a uniform trade secret law.⁷³

C. The Work of the PTC Section of the American Bar Association

As detailed in the 1966 Report of Committee 402, the PTC had frequently been asked to consider what it referred to as the "perennial Lindsay Bill."⁷⁴ In 1962, a resolution favoring the legislation was defeated by a margin of 75 to 66.⁷⁵ In 1963 and 1964, however, resolutions favoring the bill were passed.⁷⁶ Two reasons were given for support of the Lindsay Bill: the need to replace "variegated state precedents resulting from *Erie*," and the need to resolve "the federal-state conflict" noted in the *Sears/Compco* cases.⁷⁷

When the Lindsay Bill stalled in Congress, its supporters proposed to effectuate its purposes by amending the Lanham Act.⁷⁸ There followed additional efforts by members of the PTC and the National Coordinating

⁷¹ TRADE SECRETS, INTERFERENCE WITH CONTRACTS, AND RELATED MATTERS, 1974 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 402, at 252-53 (report of Roger M. Milgrim, Chairman) [hereinafter TRADE SECRETS 1974] (detailing resolutions to this effect since 1969); TRADE SECRETS, INTERFERENCE WITH CONTRACTS AND RELATED MATTERS, 1973 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 402, at 173-74 (report of Richard F. Dole, Chairman) [hereinafter TRADE SECRETS 1973].

⁷² *Brief in Support of Congressional Passage*, *supra* note 47, at 89-91, n.5.

⁷³ *Id.*; see also PROTECTION OF CONFIDENTIAL RIGHTS AND KNOW-HOW, 1967 A.B.A. SEC. PAT. TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 107, at 59 (report of James M. Heilman, Chairman, Comm. 107) [hereinafter PROTECTION OF CONFIDENTIAL RIGHTS 1967]; TRADE SECRETS, INTERFERENCE WITH CONTRACTS AND RELATED MATTERS, 1967 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 402, at 140 (report of Robert E. Isner, Chairman, Comm. 107).

⁷⁴ UNFAIR COMPETITION, 1966 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 402, at 126 (report of Dayton R. Stemple, Jr., Chairman) [hereinafter UNFAIR COMPETITION 1966]. Cf. UNFAIR COMPETITION, 1963 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 402, at 164 (report of Boynton P. Livingston, Chairman) [hereinafter UNFAIR COMPETITION 1963] (demonstrating that at the time of the drafting of the UTSA, Committee 402 was the committee charged with considering issues related to the law of unfair competition, including "state and federal laws relating to trade secrets," "problems arising out of violations of trade secrets and inducement of breach of contract," and "other possible forms of unfair competition").

⁷⁵ UNFAIR COMPETITION 1966, *supra* note 74.

⁷⁶ *Id.*

⁷⁷ UNFAIR COMPETITION, 1964 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 402, at 108-09 (report of Louis Kunin, Chairman).

⁷⁸ Tom Arnold, *A Federal Unfair Competition Law*, McClellan S. 3681, 89th Cong., 57 TRADEMARK REP. 116, 117 (1967).

Committee to fashion legislation that would be acceptable to both the practicing bar and members of Congress.⁷⁹ Known as the “McClellan Bill,” after the Senator who introduced it, and denominated the “Unfair Competition Act of 1966,” this legislation differed from the Lindsay Bill in a number of respects, most notably, rather than establishing a separate federal law of unfair competition, it proposed various amendments to § 43 of the Lanham Act.⁸⁰ Among its proposed provisions was new § 43(a)(4), which would have imposed civil liability on any person who engaged “in any act, trade practice, or course of conduct” that “results or is likely to result in the wrongful disclosure or misappropriation of a trade secret or other research or development or commercial information maintained in confidence by another.”⁸¹

As described in a brief in support of the McClellan Bill, the legislation was needed to: (1) fill the gaps in the common law of unfair competition that were left by *Erie*; (2) resolve conflicting state rulings and approaches; (3) eliminate the conflict of laws problem resulting from increased interstate commerce; (4) foster greater uniformity; (5) provide a framework for the development of a federal common law of unfair competition; and (6) provide for remedies consistent with those provided under the patent and copyright statutes.⁸² In other words, like the UTSA that followed it, the McClellan Bill was not designed simply to codify existing principles of unfair competition law; it was designed to alter those principles in several respects.

Debate about the proposed Unfair Competition Act of 1966 included the question whether the Act should include a broad catch-all provision or be limited to a specific list of actionable wrongs.⁸³ A compromise was struck to include specific examples of unfair competition followed by a generic definition of unfair competition that, consistent with the language of Article 10*bis* of the Paris Convention, prohibited any act that “is otherwise contrary to commercial good faith or to normal and honest practices of the business or activity in which he is engaged.”⁸⁴ With respect to the proposed trade secret

⁷⁹ UNFAIR COMPETITION 1966, *supra* note 74, at 127–28.

⁸⁰ See S. 3681, 89th Cong., 2nd Session and S. 1154, 90th Cong., 1st Session.

⁸¹ *Id.*

⁸² *Brief in Support of Congressional Passage*, *supra* note 47, at 89.

⁸³ UNFAIR COMPETITION 1966, *supra* note 74, at 128 (“The generic approach of the Lindsay bill and the proposed amendment to the Lanham Act appears to be favored now by a large majority”).

⁸⁴ *Id.* at 130; see also *Brief in Support of Congressional Passage*, *supra* note 47, at 104. Cf. Sharon K. Sandeen, *The Limits of Trade Secret Law: The Story of Article 39 of TRIPS and the Limited Scope of Trade Secret Protection in the United States*, in *THE LAW AND THEORY OF TRADE SECRECY, A HANDBOOK OF CONTEMPORARY RESEARCH* (Rochelle Dreyfuss & Katherine Strandburg, eds., Edward Elgar, 2011) (explaining that a similar compromise was reached in the drafting of Article 39 of the World Trade Organization, Agreement on Trade Related Aspects of Intellectual Property (the TRIPS Agreement), following the United States’s proposal to add trade secret misappropriation to the list of acts of unfair competition specifically recognized by the international community).

provision, an issue arose about how to draft the language so that it would cover information that was not absolutely secret—that is, information that is disclosed to another in the course of a confidential relationship.⁸⁵ Due to controversy about the desired breadth of a trade secret provision, two alternative definitions of protectable information were initially proposed: the “limited” provision that was ultimately selected, and a “broad” provision that would have prohibited any act that “results or is likely to result in the unfair impairment or wrongful appropriation of a trade secret or contract right of another or an intangible asset deriving from the investment, labor or skill or another.”⁸⁶

At the same time that Committee 402 of the PTC had convened to consider the advisability of a federal law of unfair competition that included provisions dealing with trade secrets, Committee 107, Protection of Confidential Rights and Know-How, was considering the same question.⁸⁷ The principal concern of that group was that the scope of trade secret protection varied from state to state, particularly with respect to the treatment of departing employees.⁸⁸ Concern was also expressed that the proposed amendments to the Lanham Act would not eliminate the need for state law, and that inconsistency in the laws of various states was leading to forum shopping. As Leonard B. Mackey, Chairman of the Protection of Confidential Rights and Know-How, stated:

Recent proliferation of various state statutes, each taking a slightly different tack than the others, may create a pattern of legislation resulting in the situs determining the protection to be afforded the owner of a trade secret. This is undesirable. It is deemed highly desirable that the problem be approached through the enactment of a uniform act by states in addition to any amendment of Federal statutes.⁸⁹

In 1968, a resolution favoring the adoption of a uniform trade secrets act was approved by the PTC and, consistent with a long-standing

⁸⁵ *Brief in Support of Congressional Passage*, *supra* note 47, at 101.

⁸⁶ *Id.* at 128–30 (“Those in favor of broad Section 4 [dealing with trade secrets] contend that misappropriation has become a recognized doctrine in the law of unfair competition and that it would be wrong to enact a federal statute [sic] in the field that does not give recognition of such a doctrine. The opponents of the broad Section state that it is contrary to the express policy of letting the courts develop the substantive law without statutory guide and that it is so broad that it includes classic patent and copyright infringement and copying of patented mechanisms after the patent expires which should not be covered by the proposed Act.”); *see also id.* at 128 (demonstrating that concern was also expressed that the Commerce Clause could not be used to support the trade secret provisions of the proposed Act).

⁸⁷ PROTECTION OF CONFIDENTIAL RIGHTS AND KNOW-HOW, 1966 A.B.A. SEC. PAT. TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 107 (report of Chairman G. Franklin Rothwell).

⁸⁸ *See* PROTECTION OF CONFIDENTIAL RIGHTS 1967, *supra* note 73, at 59, 61.

⁸⁹ PROTECTION OF CONFIDENTIAL RIGHTS AND KNOW-HOW, 1968 A.B.A. SEC. PAT. TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 107, at 68 (report of Leonard B. Mackey, Chairman).

relationship between the ABA and NCCUSL, the matter was referred to NCCUSL for further handling.⁹⁰ At that point, Committee 402 of the PTC got involved in the uniform law-making process.⁹¹

D. The Initial Work of NCCUSL and Committee 402 of the PTC

As noted above, one way that the practicing bar sought to solve the *Erie/Sears/Compco* squeeze was through the adoption of the Uniform Deceptive Trade Practices Act.⁹² According to a 1962 report by the Unfair Competition Committee of NCCUSL, although it was recognized that there were several forms of unfair competition, for purposes of the adoption of uniform laws it was determined that the law of unfair competition should be divided into the following two general areas:

- (1) An Act dealing with false, confusing or deceptive trade identification and false, confusing or deceptive representations as to the source or origin of goods; [and]
- (2) An Act dealing with trade secrets and confidential disclosures.⁹³

However, nothing happened at NCCUSL with respect to a uniform trade secrets act between 1962 and late 1968. The 1968 resolution by the PTC in support of a uniform trade secrets act, together with expressions of support from other interested parties, provided the impetus for resurrecting the project.⁹⁴

The resurrected uniform trade secrets act project began with the formation within NCCUSL of a "Special Committee on Uniform Trade Secrets Protection Act" (hereinafter the Special Committee), chaired by Commissioner Joseph McKeown, and the preparation of a report by Professor Richard F. Dole, Jr., of the University of Iowa, on the current state

⁹⁰ Resolution 14, 1968 A.B.A. SEC. PAT. TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 95 (Edward C. Vandenburg, ed.). Cf. *Relationship between American Bar Association and National Conference of Commissioners of Uniform State Laws* (explaining that the NCCUSL was created in 1892 upon the recommendation of the ABA); *Instructions for ABA Advisors to Drafting Committees of the National Conference of Commissioners on Uniform State Laws* (February 1, 1979) (demonstrating that the by-laws of NCCUSL specifically require that it notify and consult with the appropriate committee or section of the ABA); *NCCUSL Drafting Committee Status Report* (1978-1979) (demonstrating that at the time of the adoption of the UTSA in 1979, Edward T. McCabe was the ABA liaison to the NCCUSL Drafting Committee on Uniform Trade Secrets).

⁹¹ TRADE SECRETS, INTERFERENCE WITH CONTRACTS AND RELATED MATTERS, 1969 A.B.A. SEC. PAT. TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 402, at 236 (report of James W. Geriak, Chairman).

⁹² See *supra* notes 63-64 and accompanying text.

⁹³ Letter from Frances D. Jones, Executive Secretary of NCCUSL, to G.M. Fuller, Esq. (December 7, 1966).

⁹⁴ See, e.g., Letter from the American Chemical Society to Allison Dunham of NCCUSL (April 13, 1969).

of trade secret law.⁹⁵ At that time, Professor Dole was the co-chair of Committee 402 of the PTC. In 1969, he was also appointed by the Governor of Iowa to serve as a Commissioner of NCCUSL, thereby allowing him to be directly involved with the UTSA drafting process.

The process of drafting a proposed uniform trade secrets act began in 1970 with the preparation of the "First Tentative Draft, Second Working Draft." At the same time, and consistent with the historical relationship between NCCUSL and the ABA, a liaison was established between the Special Committee and Committee 402 of the PTC. This enabled input to be obtained from the practicing intellectual property bar at the very beginning of the drafting process. Because he wore multiple hats (NCCUSL Commissioner, member of Committee 402 of the PTC, and member of the Special Committee), Professor Dole became the conduit through which much of the correspondence and thinking regarding a uniform trade secrets act flowed.

From 1970 until August 1979 when the UTSA was finally adopted, the proposed UTSA went through many iterations and refinements, with different constellations of interested persons expressing views on one or more topics. For instance, between 1971 and 1972, the PTC Section discussed and adopted a total of seven resolutions favoring a uniform trade secrets act.⁹⁶ In August 1972, at the Annual Meeting of NCCUSL held in San Francisco, the proposed UTSA (in the form of the Seventh Working Draft) received its first reading.⁹⁷

According to a verbatim transcript of the first reading of the UTSA, the focus of the NCCUSL Commissioners' early discussions was on four broad policy questions.⁹⁸ First, after noting that trade secrets are protected both by principles of tort and contract law, the question was raised whether the UTSA should be limited to dealing with tort theories of liability.⁹⁹ Next, input was sought on the extent to which the UTSA should deal with liability arising from confidential relationships, particularly to the extent that such

⁹⁵ Letter from Allison Dunham, Executive Director of NCCUSL, to Albert F. James, Jr. (July 30, 1969) ("Professor Richard Dole of the University of Iowa prepared a study report for this committee which has just been circulated to the chairman of the committee. . . . The reporter, Richard Dole, has just been made a Commissioner from Iowa which may present some awkwardness in his being reporter for another Commissioner.").

⁹⁶ See TRADE SECRETS, INTERFERENCE WITH CONTRACTS, AND RELATED MATTERS, 1973 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 402, at 179 (report of Henry E. Otto, Jr., Chairman, Subcomm. C) [hereinafter TRADE SECRETS 1973, SUBCOMM. C REPORT] (attaching "Revised Draft (3/5/73) of the Proposed Uniform Trade Secrets Act Proposed by Subcommittee C of the ABA Patent Section Committee 402").

⁹⁷ Transcript of Proceedings of the National Conference of Commissioners of Uniform State Laws, Annual Conference in its 81st Year, Uniform Trade Secrets Protection Act, The Stanford Court, San Francisco, California (August 4–11, 1972) [hereinafter Transcript of Proceedings, 81st Year, Uniform Trade Secrets].

⁹⁸ *Id.*

⁹⁹ *Id.* at 9.

relationships do not involve trade secrets.¹⁰⁰ The third policy question concerned the level of intent or knowledge that should be required to impose liability under the UTSA, particularly with respect to a person who obtained information in good faith without knowledge of misappropriation.¹⁰¹ The final policy issue concerned the scope and length of injunctive relief, specifically: “[T]o what extent should the person who stole [secret information] before it became widely known be subject to sanctions after the secret becomes widely known?”¹⁰² In the Seventh Working Draft and the UTSA as adopted, it was decided to focus on tort theories and leave contract theories separate, not to include provisions that would impose liability based upon confidential relationships that do not involve trade secrets, and to limit the circumstances under which a third party could be held liable for obtaining and subsequently using or disclosing information that was acquired in good faith.¹⁰³

A question was also raised whether a uniform law was needed at all. As a NCCUSL Commissioner explained: “Any time I approach a proposal for legislation, my first question is: Which is better in this area, the common law process or legislation?”¹⁰⁴ The answer to the question “why a uniform law instead of common law” helps explain not only the purpose of the UTSA, but its meaning and import. Professor Dole responded that he thought the UTSA could resolve a number of abuses that were occurring under the common law, and what he referred to as “the pre-emption problem.”¹⁰⁵ One cited abuse was the practice in some courts of granting perpetual injunctions. Another concerned the failure of some courts to require the identification of information claimed to be a trade secret, particularly in an injunctive order. Professor Dole also noted inconsistencies concerning the availability of monetary damages and how they are measured. After studying the state of trade secret law circa 1973, Committee 402 of the PTC concluded that “a uniform act would be desirable to provide consistency of definition of trade secret misappropriation and of the relief and defenses available, as well as a uniform statute of limitations.”¹⁰⁶

¹⁰⁰ *Id.* at 18.

¹⁰¹ *Id.* at 19; see Richard F. Dole, *The Uniform Trade Secrets Act—Trends and Prospects*, 33 HAMLINE L. REV. 409 (2010). Compare *Conmar Prods. Corp. v. Universal Slide Fastener Co.*, 172 F. 2d 150 (2d. Cir. 1949), with *Shellmar Prods. Co. v. Allen-Qualley Co.*, 87 F. 2d 104 (7th Cir. 1936) (demonstrating the conflicting approaches to the issue).

¹⁰² Transcript of Proceedings, 81st Year, Uniform Trade Secrets, *supra* note 97, at 22 (noting that because broad sanctions could be anti-competitive, it was proposed that remedies be limited to a so-called “lead time injunction”).

¹⁰³ See generally UNIF. TRADE SECRETS ACT (1979).

¹⁰⁴ *Id.* at 31, see also TRADE SECRETS 1973, SUBCOMM. C REPORT, *supra* note 96 (posing the question “whether it might be preferable to rely on common law rather than upon a statutory solution in cases involving misappropriation”).

¹⁰⁵ Transcript of Proceedings, 81st Year, Uniform Trade Secrets, *supra* note 97, at 32; see also *infra* Part II.E (explaining that the “pre-emption problem” refers to the implications of the *Sears/Compco* decisions on state trade secret law).

¹⁰⁶ TRADE SECRETS 1973, *supra* note 71, at 179.

Although the precise details of all of the commentary and concerns about the UTSA was not recorded, a review of the various drafts of the UTSA and the record of relevant PTC and NCCUSL proceedings reveals that, beyond the general desire for uniformity, the principal issues of concern to both the practicing IP bar and the drafters of the UTSA were: 1. The definition of a trade secret; 2. The meaning of misappropriation; 3. The availability and scope of injunctive relief; 4. The nature and extent of monetary relief, including punitive damages and attorney's fees; 5. The treatment of trade secrets during litigation; and 6. The effect of the UTSA on other principles of law. Significantly, although the commentary to the Restatement First addressed many of these same issues, it was deemed important for the UTSA to provide clearer and more predictable results by substituting the Restatement First's guideposts with codified rules.

E. The Ghost of Sears/Compco: Kewanee Oil Co. v. Bicron Corp.

Following the first reading of the proposed UTSA in August of 1972, work on the project continued both at NCCUSL and the ABA, with Committee 402 of the PTC and Professor Dole preparing revised drafts of the UTSA that were sent to the Special Committee for consideration in mid 1973.¹⁰⁷ At that time, it was hoped that a final version of the proposed UTSA could be presented to the NCCUSL Commissioners for adoption at their annual meeting in August 1974. With the decision of the Sixth Circuit Court of Appeals in *Kewanee Oil Co. v. Bicron Corp.*¹⁰⁸ In May 1973, however, the entire project was put on hold due to doubts about the ability of states to legislate in the area of trade secret law.¹⁰⁹

The Sixth Circuit's decision in *Kewanee* was the third in a series of post-*Sears/Compco* cases that created doubt about the continued viability of claims for trade secret misappropriation based upon state law.¹¹⁰ The first was the U.S. Supreme Court's 1969 decision in *Lear, Inc. v. Adkins*, in which the Court overturned the well-established doctrine of licensee estoppel and held that patent licensees could challenge the validity of patents that were the

¹⁰⁷ Letter to William H. Adams, III from Joseph McKeown (April 13, 1973); TRADE SECRETS 1973, SUBCOMM. C REPORT, *supra* note 96; Letter to Special Committee Members from Joseph McKeown (July 5, 1973)).

¹⁰⁸ *Kewanee Oil Co. v. Bicron Corp.*, 478 F. 2d 1074 (6th Cir. 1973).

¹⁰⁹ TRADE SECRETS 1973, SUBCOMM. C REPORT, *supra* note 96, at 179 ("The future of our efforts and those of the National Conference with respect to the promulgation and adoption of the Uniform Trade Secrets Act will remain in doubt unless and until the Congress enacts legislation negating any federal intent to preempt state causes of action for unfair competition."). See also TRADE SECRETS 1974, *supra* note 71, at 252 (noting that no activity was taken with respect to the UTSA pending the outcome of the *Kewanee* case).

¹¹⁰ See Roger M. Milgrim, *Sears to Lear to Painton: Of Whales and Other Matter*, 46 N.Y.U. L. REV. 17 (1971); Joseph P. Zammit, *The Ghost of Sears-Compco Is Finally Laid to Rest (Or is It?)*, 3 HOFSTRA L. REV. 37 (1975).

subject of their licenses.¹¹¹ The second case was the decision in *Painton & Company, Ltd. v. Bourns, Inc.*, in which a District Court refused to enforce the trade secret provisions of a manufacturing agreement, finding a conflict with patent policy.¹¹² When the District Court's decision in *Painton* was overruled by the Second Circuit Court of Appeals in 1971, the practicing bar breathed a sigh of relief.¹¹³ For over two years thereafter, it was assumed that trade secret law could co-exist with patent law. That assumption changed when the Sixth Circuit Court of Appeals rendered its decision in *Kewanee*.

Although the trial court in *Kewanee* had refused to find that trade secret law was preempted by patent law, the Court of Appeals reversed and, in so doing, explicitly rejected the reasoning of the Second Circuit Court of Appeals in *Painton*.¹¹⁴ Because the Court found that the subject information was patentable, it held that the enforcement of trade secret laws with respect to such information would unduly conflict with the patent policies of the United States.¹¹⁵ In this way, the Court effectively limited the period of time in which trade secret licenses could be enforced to the period ending one year after the trade secrets were first disclosed to a licensee—that is, the period of time that patent law allows for the filing of a timely patent application after the first public use or sale of an invention.¹¹⁶

With the conflicting decisions and reasoning of the Circuit Courts in *Kewanee* and *Painton*, the circumstances were ripe for the U.S. Supreme Court to decide whether state trade secret law was preempted by federal patent law. Although the Supreme Court's 1974 decision in *Kewanee* is often cited for the proposition that state trade secret law is not preempted by U.S. patent law, it is more accurate to recognize that only the narrow version of trade secret law described in that case is not preempted.¹¹⁷ Because there was great fear among the business community and the practicing bar that trade secret law would be preempted by federal law, the appellants in *Kewanee* and many *amici* repeatedly emphasized the limited scope of trade secret law under Ohio common law. For instance, in the *amicus curiae* brief of the

¹¹¹ *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

¹¹² *Painton & Co., Ltd. v. Bourns, Inc.*, 309 F. Supp. 271 (S.D.N.Y. 1970).

¹¹³ *Painton & Co., Ltd. v. Bourns, Inc.*, 442 F. 2d. 216, 221 (2d Cir.1971).

¹¹⁴ *Kewanee Oil v. Bicron Corp.*, 478 F. 2d. 1074, 1086–87 (6th Cir. 1972) (citing *Servo Corp. of Am. v. General Elec. Co.*, 337 F.2d 716 (4th Cir. 1964); *Water Servs., Inc. v. Tesco Chems., Inc.*, 410 F.2d 163 (5th Cir. 1969); *Painton & Co. Ltd. v. Bourns, Inc.*, 442 F.2d 216 (2nd Cir. 1971)) (“We recognize that our holding in this case is in conflict with the previously cited decisions of other Circuits . . . but our analysis of the relationship between the Patent Laws of the United States and the Trade Secret Laws of the State of Ohio, as applied in this case, forces us to the conclusion that the field of protection afforded to this plaintiff by that Trade Secret Law has been preempted by the Patent Laws of the United States.”) (emphasis added).

¹¹⁵ *Id.* at 1079.

¹¹⁶ *See* 35 U.S.C. § 102(b).

¹¹⁷ Sharon K. Sandeen, *Kewanee Revisited: Returning to First Principles of Intellectual Property Law to Determine the Issue of Federal Preemption*, 12 MARQ. INTELL. PROP. L. REV. 301, 333–53 (2008).

American Bar Association—filed at the urging of the PTC—it was argued:

The trade secret law of Ohio, and that of all other states, provides a type of protection for these secrets which is distinctly different from the monopoly obtained under the patent laws. . . . [T]he owner of a trade secret only has (1) the right to prevent those who have stolen the secret from him from disclosing or using it, and (2) the right to prevent others from disclosing or using it in breach of contract or by violation of a fiduciary relationship. It is impossible, for example, for the owner of such a trade secret to assert any “trade secret” right against any person who independently develops the same secret.¹¹⁸

The strategy of emphasizing the limited scope of trade secret protection paid off. In ruling that Ohio’s trade secret law did not interfere with federal patent policies, the *Kewanee* Court repeatedly referenced such limits. First, the Court noted that for information to be protected by trade secret law, it must be secret and not “of public knowledge or of a general knowledge in the trade or business.”¹¹⁹ In keeping with the arguments of the ABA, it also recognized that there are only two types of wrongs that trade secret law seeks to remedy: (1) the disclosure or use of a trade secret by one who is “under the express or implied restriction of nondisclosure or nonuse”; and (2) the disclosure or use of a trade secret after it has been obtained by “improper means,” including theft, wiretapping and aerial reconnaissance.¹²⁰ Finally, the Court emphasized that trade secret protection is limited by the fact that it “does not offer protection against discovery by fair and honest means, such as by the independent invention, accidental disclosure, or by so-called reverse engineering.”¹²¹

F. Resumption and Completion of UTSA Drafting Efforts

After the Supreme Court’s decision in *Kewanee*, efforts to craft a uniform trade secrets act were resumed in late 1975, first at the ABA and

¹¹⁸ Brief Amicus Curia of the American Bar Assoc., *Kewanee Oil Co. v. Bicon Corp.*, 1973 WL 17240 (Nov. 20, 1973) (No. 73-187) (referring to what is now the misappropriation prong of the UTSA); see SUMMARY OF PROCEEDINGS: TRADE SECRETS AND RELATED MATTER, 1973 A.B.A. SEC. PAT. TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 402, at 141 (Beverly A. Vandenburg, ed.); Memorandum to ABA Board of Governors, re: Amicus Curiae Brief (July 1973).

¹¹⁹ *Kewanee Oil Co. v. Bicon Corp.*, 416 U.S. 470, 475 (1974) (citing *B.F. Goodrich Co. v. Wohlgenuth*, 192 N.E.2d 99, 104 (Ohio 1963); *National Tube Co. v. Eastern Tube Co.*, 3 Ohio C.C. Dec. 459, 462 (Ohio C.C. 1902)).

¹²⁰ *Id.* at 475–76; compare pre-*Kewanee* versions of draft Uniform Trade Secrets Act, with UNIF. TRADE SECRETS ACT (1979) (demonstrating that the drafters of the UTSA had the statement from *Kewanee* in mind when they renewed their efforts to adopt a Uniform Trade Secrets Act, as the definition of “misappropriation” changed from the formative stages to a detailed definition).

¹²¹ *Kewanee*, 416 U.S. at 476.

later at NCCUSL.¹²² Interestingly, the Court's earlier decision in the 1973 case of *Goldstein v. California* apparently prompted further examination of a question that was raised during the first reading of the UTSA in 1972—specifically, whether the draft UTSA should “be broadened to include misappropriation of non-confidential intellectual property as well as misappropriation of trade secrets.”¹²³ For a number of reasons, it was decided that attention should focus on the adoption of the UTSA and not on a broader law designed to protect business information that does not meet the definition of a trade secret. Chairperson Richard Dole noted:

[A] majority of Subcommittee A believes that this ambitious [broadened] project unnecessarily could delay the promulgation of uniform state legislation concerning trade secret protection with respect to which greater consensus exists, could conflict with present copyright laws, and may not be feasible in view of pending copyright revision legislation which is likely to preempt expressly certain state remedies.¹²⁴

Thus, the PTC encouraged NCCUSL to direct its attention to the “expeditious refinement and promulgation of a UTSA,” noting that issues still remained regarding the definitions of “trade secret” and “misappropriation,” and legitimate defenses.¹²⁵

Beginning in 1976, updated drafts of the UTSA began to circulate among members of the PTC and NCCUSL.¹²⁶ In August of 1976, both the PTC and NCCUSL voted to proceed with the completion of a uniform trade secrets act.¹²⁷ There followed preparation and consideration of multiple additional drafts of the UTSA, beginning with a July 31, 1977 draft titled “First Tentative Draft” and continuing through more than six iterations. In June of 1978, the Review Committee established by NCCUSL to consider

¹²² Letter from Professor Richard Dole to the PTC, Committee 402 (December 31, 1975); Letter from Dean Lindsay Cowen to Members of the Special Committee on the Uniform Trade Secrets Protection Act (March 19, 1976) (“Late last summer the Special Committee on Uniform Trade Secrets Protection was in a sense reorganized and we were charged with moving forward on a draft for conference consideration. . . . In the meanwhile, Dick Dole, who remains a member of our Committee, has continued his very active participation in the work of the ABA Section of Patent Trademark and Copyright Law, serving as Chairperson of Subcommittee A of Committee 402. Dick has also been appointed by the ABA as its liaison with our Committee.”).

¹²³ Proposed Report of Richard F. Dole, Jr., Chairperson, Subcommittee A of Committee 402 of the PTC Section, at 4 (February 6, 1976); *see also* *Goldstein v. California*, 412 U.S. 546 (1973) (holding that because U.S. Copyright law did not (then) protect sound recordings, California was free to enact state laws to protect such content).

¹²⁴ Proposed Report of Richard F. Dole, Jr., Chairperson, Subcommittee A of Committee 402 of the PTC Section, at 4 (February 6, 1976).

¹²⁵ *Id.* at 6.

¹²⁶ Letter of Richard F. Dole, Jr. to Members of Subcommittee A of the PTC (February 6, 1976).

¹²⁷ Report of Dean Lindsey Cowen, Chairman of the Special Committee of NCCUSL; Letter from George G. Keely of NCCUSL to Lindsey Cowen (August 20, 1976).

the readiness of the draft UTSA determined that it was ready for a first reading before the Committee of the Whole.¹²⁸ Thus, although a draft UTSA had already received its first reading in 1972, the new and improved draft UTSA ("the Sixth Tentative Draft") received a first reading at NCCUSL's annual meeting in August of 1978.¹²⁹

The transcript of the 1978 first reading reveals that all four of the policy issues that were raised in 1972 had been resolved in the intervening six years. With respect to the issue of whether the UTSA should be limited to dealing with tort theories of liability or also deal with contract theories, it was decided that the UTSA should focus on tort theories.¹³⁰ On the issue of whether the UTSA should deal with confidential relationships, it was decided that confidential relationships were only relevant under the UTSA to the extent they involve trade secrets—that is, where a breach of a confidentiality agreement is the basis for a finding of misappropriation.¹³¹ The third issue concerning the liability, if any, of a person who acquires trade secrets innocently was resolved by providing for limited relief in the form of an injunction, but only if there was no material change in position on the part of the one who innocently acquired the trade secrets.¹³² Lastly, on the issue of available remedies in the event of an act of misappropriation followed by the trade secret becoming generally known, it was decided that an injunction should issue for at least the length of defendant's lead-time advantage.¹³³

The focus of the 1978 first reading thereafter turned to the purpose and meaning of various provisions of the draft Act.¹³⁴ Based upon the commentary that was received during the 1978 reading, a Seventh Tentative Draft (including notes and comments) of the proposed Act was prepared in March 1979 and distributed to the Special Committee and the Review Committee.¹³⁵ Ultimately, although questions were raised about a number of provisions of the proposed Act, the status of the UTSA drafting process was deemed sufficient to proceed with the preparation of a "Draft for Approval"

¹²⁸ Letter from Maurice Hartnett, III to John C. Deacon, Chairman of NCCUSL (June 13, 1978).

¹²⁹ Transcript of Proceedings in Committee of the Whole, Uniform Trade Secrets Protection Act (August 3, 1978) [hereinafter Transcript of Proceedings in Committee of the Whole].

¹³⁰ *Id.* at 6.

¹³¹ *Id.* at 6; Trade Secrets, Interference with Contracts, and Related Matters, 1976 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. COMMITTEE REP. § 33, at 4 (report of Richard F. Dole, Jr., Chairperson, Comm. 402, Subcomm. A) ("A majority of Subcommittee A [of Committee 402 of the PTC] recommended that the Section encourage the National Conference to direct its attention to the expeditious refinement and promulgation of a Uniform Trade Secrets Act which leaves to the common law and other state and federal legislation the actionability of misappropriation of nonconfidential intellectual property.").

¹³² Transcript of Proceedings in Committee of the Whole, *supra* note 129, at 7.

¹³³ *Id.*

¹³⁴ See *infra* Part III.

¹³⁵ Letter from Lindsey Cowen to Members of the Special Committee (March 30, 1979).

that was presented to and approved by NCCUSL at its annual meeting in August 1979.¹³⁶ The August 1979 version of the UTSA, therefore, represents the culmination of over thirteen years of study and work by scores of attorneys and policy makers.

IV. THE PURPOSE AND MEANING OF THE UTSA

Although the initial impetus behind the UTSA was the desire to solve the *Erie/Sears/Compco* squeeze, the preparation of a proposed uniform law allowed the drafting committee to consider various ways to improve trade secret law as developed at common law. Ultimately, the UTSA enhanced or truncated the common law development of trade secret law in at least six ways: (1) it provided a precise and limited definition of a trade secret; (2) it excluded protection for business information not meeting the definition of a trade secret; (3) it focused attention on the need of a trade secret claimant to prove both the existence of a trade secret and one or more acts of misappropriation; (4) it clarified the availability and scope of remedies, including injunctive relief, punitive damages, and attorneys' fees; (5) it recognized the value of protective orders during trade secret litigation; and (6) it explicitly preempted other common law causes of action designed to provide remedies for the misuse of business information.

A. The Definition of a Trade Secret

A principal area of concern relating to the practicing bar's desire for uniformity was the common law definition—or lack of a definitive definition—of a trade secret.¹³⁷ In a 1963 article published in *The Business Lawyer*, Mathias Correa explained:

At the threshold of any discussion of the "protection" of trade secrets it seems most appropriate to define what the term "trade secret" actually means. The term seems to imply the existence of some sort of property and suggests that a trade secret ought to be definable as such. . . . In fact, however, this is rarely the case.¹³⁸

When the UTSA drafting process began in 1966, the Restatement

¹³⁶ Transcript of Proceedings in Committee of the Whole, Uniform Trade Secrets Act, National Conference of Commissioners of Uniform State Laws, Sheraton-Harbor Island Hotel, San Diego, California (August 6–7, 1979).

¹³⁷ See, e.g., P. J. Whelan, *Trade Secrets—Problems of Acquisition*, 1963 BUS. LAW. 539, 540 (1963) ("On the question of what is a secret or when is knowledge a secret, the courts are in disagreement. We also find a sharp difference between the various jurisdictions on the question when a secret ceases to be a secret in the sense that the receiver is bound to hold it in confidence and not use it without the permission of the discloser.").

¹³⁸ Mathias Correa, *Protection of Trade Secrets*, 1963 BUS. LAW. 531 (1963) (noting the tendency of courts in trade secret cases to focus on the wrongful behavior of the defendants instead of the existence or non-existence of a trade secret).

First did not have a definitional provision. Instead, lawyers and judges were directed to consider a list of six non-exclusive factors to determine whether a given set of information was deserving of protection.¹³⁹ Some jurisdictions held that no one factor was determinative and that the six factors could be considered or not as judges saw fit, while other jurisdictions required sufficient proof of all six factors.¹⁴⁰ This led to inconsistency and unpredictability regarding the protectable status of information, both from the perspective of an information owner who wanted to know if he or she owned trade secrets, and from an individual who needed to know if he or she could use information in his or her possession.¹⁴¹

Under the UTSA, the Restatement First's non-exclusive, amorphous, and optional list of trade secret factors is replaced by three specific and mandatory requirements.¹⁴² First, to be protected as a trade secret, the information must be secret which, in the parlance of the UTSA, means not generally known or readily ascertainable. Second, the information must derive independent economic value from not being generally known. Third, the information must be subject to efforts that are reasonable under the circumstances to maintain its secrecy. Significantly, although each of the three requirements of a trade secret incorporate concepts from the Restatement First's list of six factors (see Chart A below), the Restatement factor that examined the information-owner's investment in the creation and collection of the information is irrelevant, except to the extent it relates to

¹³⁹ RESTATEMENT (FIRST) OF TORTS, cmt. b (1934) ("Some factors to be considered in determining whether given information is one's trade secret: are (1) the extent to which information is known outside of his business; (2) the extent to which it is known by employees and other involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated.").

¹⁴⁰ Compare *Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1201 (5th Cir. 1986), and *Minuteman, Inc. v. Alexander*, 434 N.W.2d 773, 778 (Wis. 1989) (holding that "although all six elements of the *Restatement's* test are no longer required, the *Restatement* requirements still provide helpful guidance in deciding whether certain materials are trade secrets under our new definition"), and *Consolidated Brands, Inc., v. Mondy*, 635 F. Supp. 152, 156 (E.D.N.Y. 1986) (explaining that "[t]he weight given to each individual factor will, of course, vary depending on the circumstances of a particular case. However, the last factor will, in almost all instances, be the most significant of the six"), and *In re Bass*, 113 S.W.3d 735, 740 (Tex. 2003) (holding that "the party claiming a trade secret should not be required to satisfy all six factors because trade secrets do not fit neatly into each factor every time.") with *Wal-Mart Stores, Inc. v. P.O. Mkt., Inc.*, 66 S.W.3d 620, 630 (Ark. 2002), and *Carroon & Black-Rutter & Roberts, Inc. v. Hosch*, 325 N.W.2d 883 (Wis. 1982), superseded by WIS. STAT. § 134.90.

¹⁴¹ Compare *Correa*, *supra* note 138, at 531 (discussing the law relating to the protection of trade secrets and lamenting the absence of a clear meaning of a trade secret), with *Whelan*, *supra* note 137, at 539 (discussing "problems encountered by a company in seeking to avoid situations from which liability might arise from the wrongful use of the trade secrets of another").

¹⁴² UNIF. TRADE SECRETS ACT § 1 (1985) (providing the definition of trade secret).

whether the information is readily ascertainable.¹⁴³ In other words, evidence of the investment that was made to create information may be relevant to show that the information cannot be easily recreated, but the other requirements of trade secrecy must still be met—namely, the economic value and reasonable efforts requirements.

CHART A:
Side-by-side comparison of the Restatement First factors
and UTSA requirements of trade secrecy

RESTATEMENT FIRST FACTORS	UTSA REQUIREMENTS
1. The extent to which the information is known outside the claimant's business.	Not generally known (UTSA §1(4)(i))
2. The extent to which it is known by employees and others involved in the business.	Not generally known and subject to reasonable efforts to maintain secrecy (UTSA §1(4))
3. The extent of measures taken by the claimant to guard the secrecy of the information.	Subject to reasonable efforts to maintain secrecy (UTSA §1(4)(ii))
4. The value of the information to the business and its competitors	Derives independent economic value from not being generally known or readily ascertainable (UTSA §1(4)(i))
5. The amount of effort or money expended by the business in developing the information.	
6. The ease or difficulty with which the information could be properly acquired or duplicated by others.	Readily ascertainable by proper means (UTSA §1(4)(i))

The foregoing limitation on the value of a trade secret owner's investment in the creation of information is consistent with *Feist Publications, Inc. v. Rural Telephone Service Co.*, in which the U.S. Supreme Court explicitly rejected the sweat of the brow doctrine.¹⁴⁴ As the *Feist* Court explained: "It may seem unfair that much of the fruit of the compiler's labor may be used by others without compensation. . . . This result is neither unfair nor unfortunate. It is the means by which copyright advances the progress of science and art."¹⁴⁵ From the perspective of trade secret law, the mere fact that someone went to the time, trouble, and expense

¹⁴³ See generally Dole, *The Uniform Trade Secrets Act*, *supra* note 101.

¹⁴⁴ *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 352 (1991).

¹⁴⁵ *Id.* at 349–50.

to gather information—or even to create it—does not make it a protectable trade secret. Under the UTSA, information that took little time and energy to create (e.g., the proverbial “spark of genius”) can be protected to the same extent as information that is derived from years of painstaking research, but only if it satisfies the three mandatory requirements of the UTSA’s definition of a trade secret, as further explained *infra*.¹⁴⁶

1. The Requirement of Secrecy

As recognized repeatedly in Supreme Court cases, state unfair competition laws cannot protect matters of public knowledge.¹⁴⁷ The UTSA definition of a trade secret goes one step further by emphasizing that even when information is not known by the general public it cannot be a trade secret if it is generally known within an industry.¹⁴⁸ The fact that an information owner expended a lot of time, money, and energy to compile information into a comprehensive form cannot transform information that is generally known into a trade secret. Parts of the compilation may be protected by copyright law, but to establish trade secret protection for information, the owner of the information must establish that it is not generally known by both the public and members of the relevant industry.¹⁴⁹ The UTSA further requires that the information not be readily ascertainable by proper means.¹⁵⁰ Generally, whether information is readily ascertainable depends upon how easy it is to find the information without reference to the

¹⁴⁶ See *infra* notes 147–167 and accompanying text.

¹⁴⁷ See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 156–57 (1989) (“[S]tate law that interferes with the enjoyment of [free trade in publicly known] . . . unpatented design and utilitarian conceptions . . . contravenes the ultimate goal of [patent law of] public disclosure and use that is the centerpiece of federal patent policy.”); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481 (1974) (“[T]hat which is in the public domain cannot be removed therefrom by action of the States.”); *Lear, Inc. v. Adkins*, 395 U.S. 653, 663, 668 (1969) (noting that the doctrine of patent licensee estoppel was created “before the Sherman Act made it clear that the grant of monopoly power to a patent owner constituted a limited exception to the general federal policy favoring free competition” and that “federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent”).

¹⁴⁸ UNIF. TRADE SECRETS ACT § 1(4)(i) (1985) (“The language “not being generally known to and not being readily ascertainable by proper means by other persons” does not require that information be generally known to the public for trade secret rights to be lost. If the principal persons who can obtain economic benefit from [the] information are aware of it, there is no trade secret.”).

¹⁴⁹ See *Renee Beauty Salons, Inc. v. Blose-Venable*, 652 A.2d 1345, 1350 (Pa. Super. Ct. 1995) (finding that a compilation of customer data was not a trade secret); *Den-Tal-Ez, Inc. v. Siemens Capital Corp.*, 566 A.2d 1214, 1229 (Pa. Super. Ct. 1989) (finding a compilation of information identifying railcar parts suppliers was not a trade secret).

¹⁵⁰ UNIF. TRADE SECRETS ACT § 1(4)(i)); see also *Dicks v. Jensen*, 768 A.2d 1279, 1283 (Vt. 2001) (discussing the circumstances under which customer lists may be readily ascertainable and noting, “the threshold amount of time and money that must be invested before a customer list is accorded statutory protection varies considerably”).

alleged trade secrets.¹⁵¹ The comments to the UTSA explain: "Information is readily ascertainable if it is available in trade journals, reference books, or published materials."¹⁵² Also, if the alleged secrets can be easily gleaned from products that are on the market through reverse engineering or simple observation, they are readily ascertainable.¹⁵³ In this regard, evidence of "reverse engineering" may provide a defense to a claim of trade secret misappropriation in two ways: (1) by establishing that the information is readily ascertainable and, therefore, not a trade secret; and (2) by establishing that the information was acquired properly and, therefore, that there was no misappropriation.

2. The Economic Value Requirement

Establishing that information is actually secret (that is, not generally known or readily ascertainable) is only the first step in proving the existence of a protectable trade secret under the UTSA. The next step requires a showing that the information has commercial value due to its secrecy. In the parlance of the UTSA, the information must "derive independent economic value, actual or potential, from not being generally known or readily ascertainable by other persons who can obtain economic value from its disclosure or use."¹⁵⁴ Thus, the issue is not whether the asserted trade secrets have value in the abstract, but whether they have value because they are secret, and such secrecy makes them valuable to others. Professor Dole explained this concept as follows: "A lot of mailing lists are not trade secrets. They aren't important enough. They may be stamped 'secret,' but they may not be sufficient to confer a competitive advantage and would not qualify as trade secrets under our act."¹⁵⁵

¹⁵¹ See SHORTER OXFORD ENGLISH DICTIONARY 2479 (5th ed., Oxford U. Press 2002) (defining "readily" as "without delay" or "without difficulty"); *id.* at 127 (defining "ascertainable" as capable of being determined or learned). *Id.* at 127. See also *Hamer Holding Group, Inc. v. Elmore*, 560 N.E.2d 907, 918 (Ill. App. Ct. 1990) ("[T]he key to secrecy [under the Act] is the ease with which information can be developed through other proper means: if the information can be readily duplicated without involving considerable time, effort or expense, then it is not secret."); *Vigoro Indus., Inc. v. Crisp*, 82 F.3d 785, 790 (8th Cir. 1996) ("Vigoro's two hundred farm store customers could be easily discovered because they farm in a small geographic area.").

¹⁵² UNIF. TRADE SECRETS ACT § 1 cmt.5.

¹⁵³ *Id.*

¹⁵⁴ UNIF. TRADE SECRETS ACT § 1(4)(i). See also Eric E. Johnson, *Trade Secret Subject Matter*, 33 HAMLINE L. REV. 545 (2010).

¹⁵⁵ Transcript of Proceedings of the National Conference of Commissioners on Uniform State Laws, Trade Secrets Act, 8th Session, at 11 (August 5, 1985) [hereinafter Transcript of Proceedings, 8th Session, Uniform Trade Secrets]. See also *RogersCasey, Inc. v. Nankof*, No. 02-Civ.-2599, 2003 WL 1964049 at *5 (S.D.N.Y. April 24, 2003) (unpublished) (citing *Metro Traffic Control, Inc. v. Shadow Traffic Network*, 30 U.S.P.Q.2d 1684, 1688 (Cal. Ct. App. 1995) (citing the economic-value requirement as a major impediment to plaintiff's claim, explaining that the alleged trade secret information "derives its economic value not from its secrecy, if any, but rather from its relevance to the needs of the particular

The economic value requirement of the UTSA was not simply a definitional flourish but was specifically designed to increase the plaintiff's burden of proof in order to ensure that a claim for relief was not provided for illusory information or information of little import.¹⁵⁶ The first draft of the UTSA prepared by the PTC contained a tangibility requirement that would have required trade secret plaintiffs to prove that their trade secrets had been fixed in some tangible form.¹⁵⁷ The purpose of a tangibility requirement was explained as follows:

You get into these cases, and the plaintiff tries to get strong relief and disclose as little of what his real secret is as he can; and the idea is that trade secret protection should not be available unless, prior to misappropriation, the plaintiff has provided an evidentiary embodiment of that which he seeks protection for.¹⁵⁸

After it was pointed out that sometimes the worst way to protect a secret is to write it down (as was the case with the Pentagon Papers that were then in the news), the decision was made to delete the tangibility requirement.¹⁵⁹ Later, when concern was raised that the absence of a tangibility requirement might create rights in inchoate ideas, Professor Dole explained: "We did not mean to grant protection to abstract ideas—period. An abstract idea wouldn't have commercial value."¹⁶⁰ In lieu of a tangibility requirement, the UTSA requires proof of commercial value and reasonable efforts to maintain secrecy.

As originally drafted, the economic value requirement used the term "commercial value." Section 1(4) of the version of the UTSA that was adopted by NCCUSL in 1979 reads:

(i) derives independent actual or potential commercial value from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its commercial use¹⁶¹

client")); *Spring Indus., Inc. v. Nicolozakes*, No. 99AP120075, 2000 WL 1751163 at *2 (Ohio Ct. App. 2000) (unpublished) (finding that the alleged trade secret information was of no value to the defendant); *Montgomery Cnty Assn. of Realtors, Inc. v. Realty Photo Master Corp.*, 878 F. Supp. 804, 814 (D. Md. 1995) (noting that the database "derives economic value not from its secrecy, but from being widely distributed . . ."); POOLEY, *supra* note 8, at § 4.05.

¹⁵⁶ See *supra* notes 139–142 and accompanying text.

¹⁵⁷ See First Tentative Draft (Seventh Working Draft) of Uniform Trade Secrets Act, § 1(2) (July 18, 1972) ("'[T]rade secret' means a scientific, technical, or commercial idea or fact which is reduced to tangible form which is undisclosed or disclosed solely with express or implied restrictions on its disclosure or use, and which confers an actual or potential competitive advantage.") (emphasis added).

¹⁵⁸ Transcript of Proceedings, 8th Session, Uniform Trade Secrets, *supra* note 97, at 5.

¹⁵⁹ Transcript of Proceedings in Committee of the Whole, *supra* note 129, at 6; see also *New York Times Co. v. United States*, 403 U.S. 713 (1971).

¹⁶⁰ *Id.* at 10.

¹⁶¹ UNIF. TRADE SECRETS ACT, as adopted in August of 1979 (emphasis added).

The Review Committee had earlier agreed that "commercial value" was a better concept than "economic value," but both terms were still used.¹⁶² Following the formal adoption of the UTSA in August 1979, NCCUSL's Committee on Style—as is its purpose and practice—reviewed the language of the UTSA for grammatical and style problems. Apparently noting confusion or inartfulness in the use of both the terms "commercial" and "economic," the Style Committee changed the foregoing language as follows:

- (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use

Apparently, the Committee on Style viewed the terms "commercial" and "economic" as being synonymous. In light of this drafting history, the economic value requirement can be read to include a requirement that the alleged trade secret information be of value to others due to its actual or potential commercial use.¹⁶³

3. The Reasonable Efforts Requirement

The third part of the UTSA's definition of a trade secret requires that the putative trade secret owner establish that the information is and has been the subject of efforts that are reasonable under the circumstances to protect its secrecy.¹⁶⁴ This is consistent with a number of early trade secret cases that carefully examined the extent to which the claimant treated the information as a secret.¹⁶⁵

During consideration of the proposed UTSA in 1978, the reasonable efforts requirement was cited in response to concerns that the UTSA might be interpreted to impose liability on someone who acquired information as a result of the trade secret owner's negligence.¹⁶⁶

Mr. Haydock: Mr. Chairman, I have a question here. On page 2, line 23, with reference to knowledge of a trade secret that's acquired by mistake, I would be pleased to have a little more indication of what you mean by "mistake."

...

Mr. Dole: I think we were thinking of the Restatement

¹⁶² Letter of Dean Lindsey Cowen to Henry E. Otto, Jr. (May 8, 1978).

¹⁶³ *Accord* Relig. Tech. Ctr. v. Wollersheim, 796 F.2d 1076, 1090 (9th Cir. 1986) (holding that a commercial advantage must be shown and that the alleged spiritual advantage was not enough).

¹⁶⁴ Letter of Dean Lindsey Cowen to Henry E. Otto, Jr. (May 8, 1978).

¹⁶⁴ UNIF. TRADE SECRETS ACT § 1(4) (1985).

¹⁶⁵ See *supra* notes 25–33 and accompanying text (explaining that early trade secret cases mandated there be a confidentiality agreement or some evidence that plaintiff treated the information as a secret).

¹⁶⁶ Transcript of Proceedings in Committee of the Whole, *supra* note 129, at 23.

concept. Their illustrations typically involved misdelivered memos and letters. If a person is negligent in maintaining secrecy, under the definition of “trade secret”—if they are negligent enough, that can forfeit [their] protection. So if the negligence goes to reasonableness of the efforts to maintain secrecy, you can lose protection. But if you just misdeliver something you are trying to keep confidential, you can impose liability.¹⁶⁷

It is clear from the foregoing exchange that the drafters of the UTSA did not intend to protect business information merely because an individual or company had hoped or intended to keep it secret. Wishful thinking is not enough. Rather, only information that is actually subject to reasonable secrecy efforts meets the definition of a trade secret. What is “reasonable” according to the UTSA depends upon the circumstances and is one area under the UTSA where judges are free to exercise their traditional roles and develop a common law meaning of reasonable efforts.

B. Eliminating Protection for Mere Business Information

By the time of the first reading of the Sixth Tentative Draft in August 1978, the three requirements of a trade secret had emerged as the preferred way of defining a trade secret and there was little debate among NCCUSL Commissioners concerning the definition as written.¹⁶⁸ Because the drafters of the UTSA had the benefit of the U.S. Supreme Court’s reasoning in *Kewanee*, it must be assumed that they were aware of the narrow scope of trade secret law that is described therein and that the UTSA was written in a manner that is consistent with those parameters.¹⁶⁹ Thus, although the conventional wisdom is that the UTSA broadened the scope of information that is protectable under trade secret law by deleting the Restatement First’s requirements that the protected information be non-ephemeral and used in one’s business, it really only broadened the classes of information that, theoretically, can be protected.¹⁷⁰ By substituting three

¹⁶⁷ *Id.* at 23. See also UNIF. TRADE SECRETS ACT § 1, cmt. (“The type of accident or mistake that can result in a misappropriation under Section 1(2)(ii)(C) involves conduct by a person seeking relief that does not constitute a failure of efforts that are reasonable under the circumstances to maintain its secrecy under Section 1(4)(ii).”).

¹⁶⁸ See generally Transcript of Proceedings in Committee of the Whole, *supra* note 129.

¹⁶⁹ See *supra* note 117 and accompanying text (explaining that *Kewanee* was decided in 1974); see also *supra* note 122 and accompanying text (explaining that the drafters resumed work on the UTSA after the Supreme Court’s decision in *Kewanee*).

¹⁷⁰ UNIF. TRADE SECRETS ACT § 1, cmt (1985) (“The definition of ‘trade secret’ contains a reasonable departure from the Restatement of Torts (First) which required that a trade secret be ‘continuously used in one’s business.’ The broader definition in the proposed Act extends protection to a plaintiff who has not yet had an opportunity or acquired means to put a trade secret to use.”); see also, MILGRIM & BENSON *supra* note 20, § 1.02.

clearly articulated trade secrecy requirements for a list of indeterminate trade secrecy factors, the UTSA actually increased the burden that plaintiffs in trade secret cases face when trying to establish the existence of a trade secret.¹⁷¹ In this way, the UTSA was designed to reduce the incidences where courts would protect information without sufficient proof of secrecy. The UTSA limited the scope of trade secret protection even further by refusing to extend its coverage to mere confidential information that, under § 759 of the Restatement First, could be protected if the confidential information was acquired by improper means “for the purpose of advancing a rival business interest.”¹⁷²

As noted above, the question of the proper scope of the UTSA and whether it should apply to a broader set of information than trade secrets continually reappeared, like a bad penny, as an issue during the drafting process.¹⁷³ Each time the issue was raised, the decision was made to focus the UTSA on claims related to actual trade secrets. Initially, that choice was simply a question of preference, but as the Supreme Court’s preemption jurisprudence developed and Congress expanded the reach of U.S. copyright law, the issue became one of substance. Apparently, the Supreme Court’s decision in *Goldstein*—in which it refused to hold that a California statute protecting sound recordings was preempted by pre-1978 copyright law—suggested to some that state law could be used to protect a wide variety of information and intangible property rights.¹⁷⁴ This possibility, however, was short-lived given the subsequent enactment by Congress of the Sound Recording Act and the 1976 Copyright Act and the U.S. Supreme Court’s decision in *Feist*.¹⁷⁵

Although § 301 of the Copyright Act—the provision that defines the extent to which U.S. copyright law preempts state law—suggests that some state causes of action related to the protection of business information are not preempted, the identification of those causes of action became more complicated after 1976. The drafters of the UTSA did not want to delay enactment of a uniform trade secret law while they figured out if and how other forms of business information could be protected by state law.¹⁷⁶ If the

¹⁷¹ UNIF. TRADE SECRETS ACT § 1(4) (definition of “trade secret”).

¹⁷² RESTATEMENT (FIRST) OF TORTS § 759 (1934).

¹⁷³ See *supra* notes 123–124, 137–138 and accompanying text.

¹⁷⁴ See *supra* notes 1223**Error! Bookmark not defined.**–1234 and accompanying text.

¹⁷⁵ See Sound Recording Act of 1971, Pub. Law 92-140, 85 Stat. 391 (1971); Pub. Law 93-573, 88 Stat. 1873 (1974) (codified in the Copyright Act of 1976, 17 U.S.C. § 102 (1990) (amending this Act and making it permanent); Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976) (codified as amended in scattered sections of 17 U.S.C.); *supra* note 144 and accompanying text.

¹⁷⁶ See 17 U.S.C. § 301; see also *supra* note 124 and accompanying text; Sandeen, *Kewanee Revisited*, *supra* note 117, at 333–53 (explaining that since there are now two comprehensive bodies of federal law that provide protection for information (patent and copyright law), there is a greater likelihood that the efforts of common law courts or state legislatures to protect business information that is not otherwise protected by patent or

UTSA was to deal with all tort theories of liability, the PTC and NCCUSL would have had to sort out a variety of common law causes of action that, in one shape or another, previously gave relief for the misuse of business information. Moreover, allowing for such claims with respect to information that does not meet the UTSA's definition of a trade secret would destroy the very uniformity and consistency that the UTSA was designed to promote. Thus, it was decided that the UTSA should include a provision to preclude alternative tort-based theories of liability. Consistent with the language of § 301 of the Copyright Act, while it is theoretically possible that a wrong could be articulated that provides the "extra element" necessary to avoid copyright preemption, § 7 of the UTSA requires the extra element to be something other than the claimed wrongful acquisition, disclosure, or use of business information.¹⁷⁷

C. The Definition of Misappropriation

As noted by the Supreme Court in *Kewanee*, one of the reasons that the trade secret law of Ohio was not preempted by federal patent law was because the applicable definition of a trade secret did not include information that was already in the public domain.¹⁷⁸ An equally important reason was that proof of the existence and use of a trade secret, in and of itself, was not sufficient to state a claim for trade secret misappropriation under Ohio law.¹⁷⁹ In addition, it must be shown either: (1) that the trade secret information was used or disclosed in violation of a duty of confidentiality; or (2) that the trade secret information was acquired by improper means.¹⁸⁰ In this way, the "wrong" to be remedied is not simply the defendant's use of trade secrets (as can be the case under patent and copyright law), but specific additional actions deemed to constitute cognizable wrongs in the nature of acts of unfair competition.¹⁸¹

The UTSA's requirement that both the existence of a trade secret and its misappropriation be proven in order to state a successful claim for trade secret misappropriation is consistent with the common law development of trade secret law, which generally required proof of a breach of duty or breach of trust.¹⁸² Unfortunately, in the same way that some courts did not always

copyright law will conflict with the federal policies underlying those laws).

¹⁷⁷ Accord RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38 (1995) (discussing limitations on claims for appropriating the other's tangible trade values). See also Sharon K. Sandeen, *Assessing the Protection of Information through Tort Law in INTELLECTUAL PROPERTY PROTECTION OF FACT-BASED WORKS, COPYRIGHT AND ITS ALTERNATIVES* (Edward Elgar, Robert F. Brauneis, eds. 2009).

¹⁷⁸ See *supra* note 119 and accompanying text.

¹⁷⁹ See *supra* note 120 and accompanying text.

¹⁸⁰ See *supra* note 120 and accompanying text.

¹⁸¹ See *supra* note 120 and accompanying text; see also 35 U.S.C. § 271 (2003) (Infringement of Patent); 17 U.S.C. § 501 (2002) (Infringement of Copyright).

¹⁸² See *supra* notes 25–27 and accompanying text.

insist that a plaintiff in a trade secret case prove the existence of a trade secret—thereby leading to calls for a more precise definition of a trade secret—concerns were raised during the UTSA drafting process about the failure of some courts to require proof of the existence of wrongdoing. To remedy this problem, the drafters of the UTSA decided to define the wrongdoing (“misappropriation”) separately from a “trade secret,” thereby more clearly establishing that the existence of a trade secret alone is not enough; the commission of a wrongful act must also be shown.¹⁸³

The UTSA’s definition of misappropriation was also used to specify clearly the circumstances under which third parties who are not in privity with a trade secret owner can be held responsible for trade secret misappropriation. When this issue was first considered, the drafters of the UTSA had three options. On one extreme, they could refuse to impose any liability on third parties. On the other extreme, they could follow the model of patent and copyright law and impose what is, in essence, a form of strict liability; that is, the UTSA could have imposed liability for the mere acquisition, disclosure, or use of trade secrets without requiring its misappropriation. They chose an intermediate option and imposed liability on third parties only upon acquisition of knowledge followed by a wrongful act. There are four circumstances where this may occur:

1. Where a third party acquires a trade secret of another with knowledge (or reason to know) that the trade secret was acquired by improper means;¹⁸⁴
2. Where a third party discloses or uses a trade secret of another with knowledge (or reason to know) that his or her knowledge of the trade secret was:
 - a. derived from or through a person who utilized improper means to acquire it;¹⁸⁵
 - b. derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy of limit its use;¹⁸⁶ or
 - c. before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.¹⁸⁷

Because the drafters of the UTSA did not want to impose liability on innocent users of another’s trade secrets, they were careful to require proof of specific knowledge or a reason to know.¹⁸⁸ They consciously chose, however, to modify what was described as the “bona fide purchaser for

¹⁸³ UNIF. TRADE SECRETS ACT § 1(2) (1985).

¹⁸⁴ *Id.* § 1(2)(i).

¹⁸⁵ *Id.* § 1(2)(ii)(B)(I).

¹⁸⁶ *Id.* § 1(2)(ii)(B)(III).

¹⁸⁷ *Id.* § 1(2)(ii)(C).

¹⁸⁸ Transcript of Proceedings in Committee of the Whole, *supra* note 129, at 7.

value” rule by enabling liability to be imposed for actions occurring after adequate notice is given. As explained by Professor Dole, referring to § 2(d) of the Sixth Tentative Draft:

The present law is pretty much a bona fide purchaser for value type of arrangement, and if a person in good faith obtains a trade secret and pays value for it, and later finds out it's a trade secret, it's too bad as far as the original holder of the trade secret is concerned. . . . This is an attempt to try to create some remedy for the situation of the disgruntled employee who creates a wind-fall for the competitor.¹⁸⁹

Ultimately, § 2(d) was deleted from the draft UTSA but its underlying concept of potential liability after notice was preserved in UTSA § 1(2). Pursuant to § 1(2)(i), a good-faith acquirer cannot be held liable for the mere acquisition of trade secret information. He can only be liable for the disclosure and use of trade secrets if: (1) adequate notice is received before the disclosure or use; and (2) the trade secret status of the information was not lost in the meantime.¹⁹⁰ The UTSA also states a preference for limiting the remedies that can be awarded against such “good-faith misappropriators,” as discussed *infra*.¹⁹¹

D. Remedies

Due to the traditional separation of courts of law and equity and traditional notions of compensable harm, plaintiffs in early unfair competition cases often found it difficult to obtain remedies, either in the form of damages or injunctive relief. The problem on the damages front was the frequent inability of the plaintiff to prove actual damages by showing that, but for the activities of the defendant, plaintiff's profits would have increased. This was particularly true where the defendant was not a direct competitor of the trade secret owner. With respect to a request for injunctive relief, the problem in early cases was often the nature of the claim and the limited availability of injunctive relief. Early courts that wanted to award injunctive relief often solved these problems with respect to trade secret claims by either characterizing the wrong as a breach of confidentiality or trust or by categorizing the trade secret as a property right.¹⁹²

One of the benefits of legislative enactments over the common law is that federal and state legislatures are not bound by common law rules

¹⁸⁹ *Id.* at 40, § 2(d) (“Although not otherwise a misappropriator, if necessary to prevent a manifest injustice, a person who in good faith has derived knowledge of a trade secret from a misappropriator is liable for a reasonable royalty to the extent of gain obtained from disclosure to others or use of the trade secret of another.”).

¹⁹⁰ Transcript of Proceedings in Committee of the Whole, *supra* note 129, at 31 (noting the risk of loss of trade secret rights due to wide-spread dissemination of trade secrets following their initial misappropriation).

¹⁹¹ See *infra* notes 192–202 and accompanying text.

¹⁹² See *supra* note 25–27 and accompanying text.

regarding remedies. In enacting laws that establish new causes of action, legislators are free to define both the wrongdoing that will give rise to relief and the scope and nature of available relief. Often legislators choose to follow common law principles that define the circumstances for the grant of various remedies, but where they believe such remedies are inadequate, they are free to deviate from common law principles. As noted previously, the desire for clearer and better remedies was one of the principal motivating factors behind the UTSA.¹⁹³

At the time that the UTSA was drafted, the willingness of federal legislators to deviate from common law norms when fixing remedies for patent and copyright infringement was well known to the practicing bar.¹⁹⁴ In fact, the remedies provisions of the McClellan Bill were modeled after U.S. patent and copyright law.¹⁹⁵ Thus, it is not surprising that the practicing bar saw an opportunity to use the device of a uniform law to define the remedies that would be available for trade secret misappropriation.¹⁹⁶ The drafters of the UTSA followed the model of federal patent and copyright law by: (1) providing for an award of damages and broadly defining how damages could be measured; (2) specifically providing for the grant of injunctive relief to prevent either actual or threatened trade secret misappropriation; and (3) providing for the award of punitive damages and attorneys' fees in special cases.¹⁹⁷

Although it may have been tempting to draft the remedies provisions to benefit trade secret owners, the drafters of the UTSA took a more balanced approach, recognizing that businesses might find themselves on either side of a trade secret misappropriation claim. This is seen most clearly in the limitations that were placed on the award of punitive damages and in the requirements for the award of attorney's fees and injunctive relief.¹⁹⁸ An award of exemplary damages is capped at "twice any award made under subsection (a)" of § 3. Attorney's fees can only be granted to the prevailing party in the case of bad faith pleading or willful and malicious misappropriation.¹⁹⁹ The bad faith provision of § 4, in particular, was cited as "an effort to chill wrongful assertion of rights under the Act."²⁰⁰

¹⁹³ See *supra* notes 62, 106 and accompanying text.

¹⁹⁴ See 15 U.S.C. §§ 281–289; 17 U.S.C. §§ 502–505.

¹⁹⁵ See *supra* note 82 and accompanying text.

¹⁹⁶ Transcript of Proceedings in Committee of the Whole, *supra* note 129, at 28 (noting that one of the problems with the Restatement First is that it does not discuss remedies).

¹⁹⁷ Compare UNIF. TRADE SECRET ACT, §§ 3–4 (1985), with PATENT ACT, 35 U.S.C. §§ 283–285, and COPYRIGHT ACT of 1976, 17 U.S.C. §§ 502–505.

¹⁹⁸ Transcript of Proceedings in Committee of the Whole, *supra* note 129, at 21 (noting that the UTSA was designed to eliminate the concept of permanent injunction and noting "[s]o to some degree the Act attempts to create a balance, and to some degree limit the amount of protection that is afforded for a trade secret").

¹⁹⁹ UNIF. TRADE SECRETS ACT § 4.

²⁰⁰ Transcript of Proceedings in Committee of the Whole, *supra* note 129, at 29.

While courts are given broad powers under the UTSA to grant injunctive relief against actual or threatened misappropriation, the definition of misappropriation was designed to ensure that injunctions would not be imposed against good-faith acquirers of a misappropriated trade secret (those without knowledge or a reason to know of the misappropriation).²⁰¹ Further, for those good-faith acquirers who might become misappropriators because they are timely informed of the alleged trade secret misappropriation, § 2(b) of the UTSA states a preference for the payment of a reasonable royalty instead of a prohibitory injunction, and § 3(a) limits the award of monetary relief in the case of a material and prejudicial change of position.²⁰²

E. The Treatment of Trade Secrets in Litigation

Sometimes statutory enactments are preferred in order to deviate from common law norms, as was the case with the remedies provisions of the UTSA. Other times statutes are needed because the common law is ill-equipped to deal with a unique issue. Such appears to be the case with respect to § 5 of the UTSA, which addresses the treatment of trade secrets in litigation and proved to be a non-controversial aspect of the UTSA.²⁰³ Because, by definition, trade secrets must be kept relatively secret in order to be protectable, and court proceedings are generally open to the public, any time a trade secret owner initiates a trade secret misappropriation claim there is a risk that the trade secrets will be lost in the process. To reduce this risk, the drafters of the UTSA included a provision that gives courts broad powers to preserve the secrecy of alleged trade secrets during litigation, including the power to issue protective orders.

F. Preemption of Other Tort Theories of Liability

In addition to having to solve the preemption problem that was addressed in *Kewanee*, the drafters of the UTSA confronted another preemption problem, or what is more appropriately labeled an overlapping cause of action problem. As noted above, at the time the UTSA drafting process began, trade secret law was a hodge-podge of theories and causes of action.²⁰⁴ In order to bring order to this chaos, the UTSA was proposed. However, the UTSA would not accomplish its central mission if the (often inexact and incomplete) legal theories and causes of action that preceded it were allowed to co-exist. Thus, what ultimately became § 7 of the UTSA

²⁰¹ See *infra* notes 216–233 and accompanying text (discussing the 1985 Amendments to the UTSA).

²⁰² See Transcript of Proceedings in Committee of the Whole, *supra* note 129, at 29; UNIF. TRADE SECRETS ACT § 3, cmt.; accord *Conmar Prods. Corp. v. Universal Slide Fastener Co.*, 172 F. 2d 150 (2d Cir. 1949).

²⁰³ UNIF. TRADE SECRETS ACT § 5, cmt.

²⁰⁴ See *supra* notes 43, 82 and accompanying text.

(Effect on Other Law) was proposed.

As originally written, § 7 (then § 6) stated that the UTSA would be “the exclusive state tort remedy for trade secret misappropriation,” but that its preclusive effect would not apply to: (1) criminal penalties for trade secret misappropriation; (2) tort liability for misappropriation that is not based upon the existence of a trade secret; and (3) contractual obligations.²⁰⁵ Like § 5 of the UTSA, this provision was non-controversial. While questions arose about how it should be worded, there was no dispute about the desirability of such a section or its basic intent. During the reading of the draft UTSA in 1978, when asked to explain the conflicting law that would be excluded by § 6(a), Professor Dole stated:

Well, I would gather it would be a type of law that imposes liability for trade secret misappropriation that had a different definition or [sic] trade secret or a different definition of misappropriation. The basic categories would be tort law, or quasi-contract law, that imposed liability for misappropriating something that's a trade secret.²⁰⁶

The problem with the last sentence of the foregoing quote is that pre-existing theories of trade secret liability did not always use an adequate definition of a trade secret, and what constituted misappropriation was not necessarily co-extensive with the definition set forth in the UTSA.²⁰⁷ It makes more sense to follow the logic of the first sentence and realize that in light of complaints concerning the uneven common law development and application of trade secret law, § 7 was intended to preclude all other state-based tort claims for the protection of “proprietary” or “confidential” information. Otherwise, the UTSA's goal of preventing the over-assertion of trade secret rights could be avoided by the simple expedient of claiming an independent right to protect information that does not qualify for trade secret protection. As noted above, this approach would also conflict with the preemption provisions of U.S. copyright law.²⁰⁸

Section 7 of the UTSA is perhaps best understood in light of a similar provision that is part of the Uniform Deceptive Trade Practices Act (UDTPA), which was adopted by NCCUSL in 1966.²⁰⁹ Section 2(c) of the UDTPA provides, “This section does not affect unfair trade practices

²⁰⁵ Uniform Trade Secrets Protection Act, First Tentative Draft § 6, at 5–6 (July 31, 1977).

²⁰⁶ Transcript of Proceedings in Committee of the Whole, *supra* note 129, at 9.

²⁰⁷ See also Uniform Trade Secrets Act, Sixth Tentative Draft (July 28, 1978) (the draft was changed to read: “This Act displaces conflicting common law and statutes pertaining to actionable trade secret misappropriation.”). See also, John T. Cross, *UTSA Displacement of Other State Law Claims*, 33 HAMLINE L. REV. 445 (2010).

²⁰⁸ See *supra* notes 122–124 and accompanying text.

²⁰⁹ Revised Uniform Deceptive Trade Practices Act, Approved by the National Conference of Commissioners of Uniform State Law at its Annual Meeting, Montreal, Canada (July 30–August 5, 1966).

otherwise actionable at common law or under other statutes of this state.”²¹⁰ The drafters of the UTSA could have followed the language of the UDTPA and specifically allowed for the continued common law development of theories of liability related to business information not meeting the definition of a trade secret, but chose not to do so.²¹¹ Instead, they stated a clear intent to restrict the further development of common law theories for the protection of business information. If either the existence of a trade secret or an act of misappropriation (as defined by the UTSA) cannot be shown, then no theory of liability, other than one based upon breach of contract, is allowed.²¹²

The purpose of § 7 of the UTSA must also be understood in light of the development and application of the *Sears/Compco* doctrine.²¹³ As detailed *supra*, while the *Kewanee* Court held that trade secret law was not preempted by federal law, it did so based upon a narrow view of trade secret law and, in the process, indicated that state laws that attempt to protect business information that is not secret or is not misappropriated would face preemption problems.²¹⁴ Section 7 is not only consistent with *Kewanee*, it is one of the means by which the UTSA solved “the preemption problem.”²¹⁵

G. The History of the 1985 Amendments to the UTSA

Given the length of the UTSA drafting process and the long-term and extensive involvement of the practicing bar in that process, it is perhaps surprising that any objections to the Act would be voiced, let alone so soon after its adoption in 1979. After NCCUSL adopted the UTSA at its annual meeting in August of 1979, a number of states moved quickly to enact it into law. In August 1980, Minnesota became the first state to pass legislation adopting the UTSA, followed closely by Idaho, Arkansas, Kansas, and Louisiana.²¹⁶ Soon thereafter, however, the UTSA hit a snag in the form of opposition engineered by William LaFuze, an attorney from Houston and an

²¹⁰ *Id.*

²¹¹ Professor Dole was also involved with the drafting of the UDPA and, thus, was presumably aware of its provision that specifically allowed for the continued common law development of unfair trade practices law.

²¹² *Accord* ITT Shadow Inc. v. Stein, 7 U.S.P.Q. 1348 (D. Minn. 1988). *See also*, RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38, cmt. a (1995) (“The law of unfair competition imposes liability only in connection with particular methods of competition that undermine rather than advance the competitive process The primary source of protection for intangible trade values are the federal patent and copyright laws.”).

²¹³ *See supra* notes 65–67 and accompanying text (discussing the *Sears/Compco* doctrine).

²¹⁴ *See supra* notes 117–119 and accompanying text (discussing the *Kewanee* holding).

²¹⁵ *See supra* note 105 and accompanying text. The UTSA also solved the preemption problem by narrowly defining the scope of trade secret protection.

²¹⁶ *See* MINN. STAT. ANN. §§ 325C.01–.08 (2010); IDAHO CODE §§ 48-801–807 (2010); ARK. CODE ANN. §§ 4-75-601–607 (2010); KAN. STAT. ANN. §§ 60-3320–3330 (2010); LA. STAT. ANN.-REV. STAT. §§ 51:1431–1439 (2010).

active member of the Intellectual Property Law Section of the State Bar of Texas, the PTC Section, and the American Patent Law Association.²¹⁷

On July 3, 1981, the Intellectual Property Section of the State Bar of Texas, at the apparent urging of Mr. LaFuze, passed a series of resolutions that, while favoring a uniform trade secrets act in principle, opposed adoption of the 1979 version of the UTSA.²¹⁸ Despite its past and extensive involvement in the UTSA drafting process, similar resolutions were thereafter adopted by the PTC on August 8, 1981.²¹⁹ The Unfair Competition Committee of the American Patent Law Association followed suit in a series of resolutions that were put to a vote in December 1981.²²⁰ The principal concerns of the three groups related to the issue of remedies.

First, with respect to § 7 of the 1979 version of the UTSA, concern was expressed that the language did not make it clear that the UTSA would not preclude breach of contract claims and associated contract remedies. Second, although the possibility of a grant of reasonable royalties was mentioned in the injunction section of the 1979 version of the UTSA (§ 2), concern was expressed that reasonable royalties should also be listed as a possible alternative measure of damages in the damages section (§ 3).²²¹ Third, concern was expressed about the remedies available against good-faith misappropriators. Although Mr. LaFuze and his cohorts wanted to give courts the flexibility to grant damages measured by reasonable royalties, they wanted to allow such remedies against good-faith misappropriators only in "exceptional circumstances."²²²

The fact that the UTSA was ultimately amended in 1985 is a testament to the value of persistence and determination. Although the initial response of NCCUSL was to suggest that there were no problems with the language of the 1979 version of the UTSA and, in any event, it had been fully vetted by the practicing bar, Mr. LaFuze would not relent in his mission to amend the UTSA.

First, he cobbled together an argument that the practicing bar was not in full support of the UTSA, as evidenced by the aforementioned resolutions and a June 1979 critique of the draft UTSA by the Unfair Competition Committee of the American Patent Law Association.²²³ Next,

²¹⁷ See *infra* notes 223–224, 226–227 and accompanying text (discussing relevant correspondence from Mr. LaFuze).

²¹⁸ Resolutions of the Intellectual Property Law Section, State Bar of Texas, regarding the Uniform Trade Secrets Act, approved July 3, 1981.

²¹⁹ Resolutions of the Patent, Trademark & Copyright Section, American Bar Association, regarding the Uniform Trade Secrets Act, approved August 8, 1981.

²²⁰ See Resolutions of the Unfair Competition Committee of the American Patent Law Association (November 19, 1981); Resolutions of the Unfair Competition Committee of the American Patent Law Association, regarding Results of Voting (December 7, 1981).

²²¹ Resolutions of the Intellectual Property Law Section, State Bar of Texas, regarding the Uniform Trade Secrets Act, Resolution No. 6 (July 3, 1981).

²²² *Id.*

²²³ Letter of William LaFuze to James Showers (December 5, 1981); see also

he insisted on meeting with Professor Dole and NCCUSL Commissioner James Showers, both residents of Texas, to discuss the matter.²²⁴ That meeting led Professor Dole to prepare proposed amendments to the UTSA in 1982.²²⁵ When NCCUSL was not quick to amend the UTSA, Mr. LaFuze apparently convinced the Unfair Competition Committee of the American Patent Law Association to pursue federal trade secret legislation and used the threat of such legislation to try to convince NCCUSL to amend the UTSA.²²⁶ Finally, when that strategy did not work, Mr. LaFuze wrote to the Governors of various states to inform them, "the primary organized bars which first supported the adoption of the Uniform Trade Secrets Act by the states have withdrawn their support."²²⁷

Although it was an overstatement for Mr. LaFuze to argue that the major bar associations withdrew their support of the UTSA since the aforementioned resolutions were only approved by relatively small committees of such associations, his letters to the Governors were apparently the last straw that caused NCCUSL to actually amend the UTSA. The fear, of course, was that Mr. LaFuze had created enough smoke that NCCUSL's efforts to convince additional states to adopt the UTSA would be hampered. There followed additional meetings and discussions between Mr. LaFuze and representatives of NCCUSL and the development of several proposed amendments to the UTSA.²²⁸

Amendments to § 7 were designed to make it clear (or clearer) that the UTSA was not intended to interfere with claims for breach of contract and associated contractual remedies. In this regard, it was felt that use of the word "remedy" was better than use of the word "liability."²²⁹ Amendments to § 3 were proposed in order to make it explicit that reasonable royalties could be used as an appropriate measure of damages under the UTSA when "actual loss" and "unjust enrichment" could not be proved.²³⁰ Conversely, the amendments to § 2(b) were designed to limit the use of reasonable royalties

Letter of William LaFuze to Professor Richard F. Dole (March 4, 1982).

²²⁴ Letter of William LaFuze to Joseph DeGrandi, President of the Patent, Trademark & Copyright Section of the American Bar Association (January 8, 1982).

²²⁵ Letter of Richard F. Dole to John McCabe (January 13, 1983) (referring to proposed amendments that were prepared in August of 1982).

²²⁶ Letter of William LaFuze to Professor Richard F. Dole (December 1, 1982).

²²⁷ Letter of William LaFuze to Officer of the Governor of the State of Montana (September 19, 1983).

²²⁸ Letter of Richard F. Dole to John McCabe (February 23, 1984) (enclosing memorandum regarding "Desirable Amendments to the Uniform Trade Secrets Act"); Memorandum to NCCUSL Committee on Uniform Trade Secret Act from John McCabe (June 28, 1984); Letter of Richard F. Dole to Jon McCabe (June 20, 1984) (enclosing proposed amendment as approved by Mr. LaFuze in his personal capacity).

²²⁹ Amendments to Uniform Trade Secrets, Principal Policy Statement, at 1-2 (July 1985).

²³⁰ *Id.* at 2 (based upon the holding in *University Computing Co. v. Lykes-Youngstown Corp.* 504 F.2d 518, 535 (5th Cir. 1974)); see Transcript of Proceedings, 8th Session, Uniform Trade Secrets, *supra* note 155, at 18-19.

as an alternative to the grant of injunctive relief by stating that they can only be granted in "exceptional cases."²³¹ Proceedings from the NCCUSL indicate the following:

The American Bar Association was concerned about limiting damages in [cases of good-faith misappropriation] and allowing the court discretion to not allow damages under those circumstances. And they wanted to spell it out so that when you have your good faith misappropriation, damages are not something to which the plaintiff is automatically entitled.²³²

Significantly, because § 1(2) of the UTSA was understood to confer immunity upon a large group of potential defendants (so-called "good-faith misappropriators"), it was deemed unnecessary to detail in §§ 2 and 3 the extent to which equitable and monetary relief should be limited because of good-faith reliance.²³³

V. THE PRACTICAL AND LEGAL DIFFERENCE BETWEEN COMMON LAW DOCTRINES AND STATUTORY ENACTMENTS

Once adopted by NCCUSL, uniform laws must be enacted into law by the legislatures of individual states. Because this process takes time, the switch from the Restatement First view of trade secrets to the UTSA view was not immediate. Although five states quickly adopted the UTSA so that it went into effect in those states in 1981, it was not until September 2, 1988, when Alaska became the twenty-sixth state to enact the UTSA, that the UTSA replaced the Restatement First as the predominant body of law governing trade secrets in the United States.²³⁴ Unfortunately, little notice of this milestone was made by courts and commentators of the time, and many attorneys and judges continue to rely upon the Restatement First version of trade secret law as if it is gospel.²³⁵ This not only results in the application of the incorrect body of law, but also gives undue credit to the Restatement series that is, at best, only secondary authority of applicable law. It also fails to recognize that the Restatement (Second) of Torts excluded all sections concerning unfair competition and that the trade secret provisions of the Restatement First were subsequently replaced in 1998 by sections of the

²³¹ Amendments to Uniform Trade Secrets, Principal Policy Statement, at 2-3 (July 1985).

²³² Transcript of Proceedings, 8th Session, Uniform Trade Secrets, *supra* note 155, at 25.

²³³ *Id.* at 3; *see* UNIF. TRADE SECRETS ACT § 1(2)(ii)(C) (1985) (demonstrating that a good-faith misappropriator is a person who does not know or have reason to know that the information is a trade secret or that it was misappropriated).

²³⁴ *See supra* note 8 and accompanying text; *see also* ALASKA STAT. §§ 45.50, 910-45 (2010).

²³⁵ *See supra* note 19 and accompanying text.

Restatement (Third) of Unfair Competition.²³⁶

The Restatement series was and is an explication of applicable law as divined by members of the American Law Institute (ALI), consisting of a collection of judges, academics, and practitioners.²³⁷ The purpose of the Restatement was (and is) not to codify the law, but rather to clarify and simplify the law by providing an easily-accessible and clear statement of what the members of the ALI thought was the majority view of the states on various points of law.²³⁸ As explained by an early Director of the ALI:

Although the meaning of a case and the extent of its authority was often in dispute the rule that the Restatement should be prepared in light of case authority has been adhered to. The Restatement does represent the considered opinion of those constructing it of the way in which the law would be decided in the light of decisions by the courts.²³⁹

In many instances, the drafters of the Restatement First did not have much to rely upon in trying to predict how courts would decide various legal issues. According to a study conducted by the ALI in the 1940s, “the percentage of blanks [meaning the absence of applicable case authority] runs in many States between fifty and seventy-four percent and even in States like Massachusetts, New York and Pennsylvania there is a substantial number of sections of the Restatement not covered by local case law.”²⁴⁰ This undoubtedly explains why some provisions of the Restatement First series are more detailed than others. The more common law that existed on a subject, the more “meat” the drafters had to work with in trying to explain the better-reasoned law. Where there was not much case law on a topic—as was the case with trade secret law circa 1939—then the provisions of the Restatement First on those topics necessarily had to be more general in order to avoid creating law.

The lack of applicable authority and the generality of the Restatement First provisions on trade secret law are revealed by both the structure and content of those provisions. The principal import of §§ 757 through 759 of the Restatement First is to identify the nature of the wrongdoing. No effort was made in those provisions to provide details concerning the meaning of any terminology used therein, let alone applicable remedies or defenses. Rather, such details were left to be worked out by the courts of each state in accordance with common law tradition. If and when

²³⁶ See RESTATEMENT (SECOND) OF TORTS, Division Nine, Intro. Note, at 1 (1979); RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39–45 (1998).

²³⁷ William Draper Lewis, *History of the American Law Institute and the First Restatement of the Law*, in RESTATEMENT IN THE COURTS (Permanent ed., 1932–1944).

²³⁸ *Id.* at 19 (explaining that although the Restatement is expressed in the form of a code “there never has been any desire to give them statutory authority.” Rather, “[the Restatement] is designed to help preserve not to change the common system of expressing law and adapting it to changing conditions in a changing world”).

²³⁹ *Id.* at 8.

²⁴⁰ *Id.* at 20.

sufficient case authority developed on such issues, the Restatement First would be revised and amended to reflect the subsequent common law development of the law, as actually occurred with the adoption of the Restatement (Third) of Unfair Competition.²⁴¹ Moreover, although many provisions of the Restatement First included commentary, the commentary was not formally sanctioned by the ALI and, at best, constitutes the individual opinion of the person(s) who drafted it.²⁴² As with the textual provisions of the Restatement First, if an issue of law developed in a manner that was inconsistent with the commentary, then the law as developed should prevail.

In contrast to the Restatement series, the purpose of the uniform law process is not merely to restate existing law, but to make and codify the law. As noted in a history of NCCUSL, in 1837 Justice Joseph Story explained the purpose and benefits of uniform laws this way:

One great advantage, therefore, of a code, an advantage which in a practical view can scarcely be over-estimated, is that it supersedes the necessity, in ordinary cases at least, of very elaborate researches into other books; and indeed, it often supersedes in all cases, but those of rare and extraordinary occurrence, the necessity of consulting an immense mass of learned collections and digests of antecedent decisions.²⁴³

Thus, as a body of law, the UTSA—particularly as codified in each of the forty-seven jurisdictions that have adopted it—has a different status than the Restatement series. Whereas the Restatement series is secondary authority of what the law is, the UTSA is primary authority. As a matter of statutory interpretation, therefore, the first place that courts in UTSA jurisdictions should look to understand trade secret law is the language of the UTSA itself. To the extent that the language of the UTSA is unclear or incomplete, then various methods of statutory interpretation can be used in an attempt to apply the statute correctly, often depending upon the interpretative model preferred by a given judge.²⁴⁴

While debate rages about whether, and to what extent, it is

²⁴¹ *Id.* at 21 (“Any subject in the Restatement when published represents the present law. But, in a short time it here and there ceases to be the law.”); see RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39–45.

²⁴² See generally Lewis, *supra* note 237.

²⁴³ WALTER P. ARMSTRONG, A CENTURY OF SERVICE, A CENTENNIAL HISTORY OF THE NATIONAL CONFERENCE OF COMMISSIONERS OF UNIFORM STATE LAWS 13 (West 1991).

²⁴⁴ See generally FRANK B. CROSS, THE THEORY AND PRACTICE OF STATUTORY INTERPRETATION (2009) (discussing the textualism, legislative history, canons, and pragmatism models of statutory interpretation). See also GUIDO CALABRESI, A COMMON LAW FOR THE AGE OF STATUTES (1982) (arguing the pragmatism view); ANTONIN SCALIA, COMMON-LAW COURTS IN A CIVIL-LAW SYSTEM: THE ROLE OF UNITED STATES FEDERAL COURTS IN INTERPRETING THE CONSTITUTION AND LAWS, IN A MATTER OF INTERPRETATION: FEDERAL COURTS AND THE LAW (1997) (arguing the textualism view).

appropriate for judges to consult legislative history to determine the meaning of a statute, the drafting history of the UTSA is as relevant, if not more relevant, than the Restatement series for understanding the current state of trade secret law.²⁴⁵ In the case of the trade secret provisions of the Restatement First, the case-by-case and fact-specific findings of various common law courts circa 1939 is replaced with a recitation of law that was the product of years of study and was updated to reflect intervening legal developments, particularly with respects to *Sears/Compco* and its progeny. In the case of the trade secret provisions of the Restatement (Third) of Unfair Competition, which were based upon the UTSA, the drafting history of the UTSA provides more direct evidence of the purpose and intent of the UTSA.

As the foregoing history of the UTSA reveals, the intent of the UTSA was to supplement the common law in some respects and change it in others. Indeed, this is one of the reasons the practicing bar advocated for the adoption of the UTSA in the first place.²⁴⁶ The practicing bar was not happy with the pace and path of development of the common law of trade secrets and decided to speed up and refine that process by adopting a uniform law.²⁴⁷ Because many of the trade secret principles that had been fashioned by common law courts differed from state to state, the drafters of the UTSA endeavored to identify what they considered the better-reasoned principles of trade secret law so that they could be codified in the UTSA. In the process, they rejected a number of common law principles that led to uncertainty and lack of clarity or that would have resulted in overly-broad protection for business information. In particular, in light of the U.S. Supreme Court's decision in *Kewanee*, the UTSA was drafted to ensure that the scope of state trade secret law was limited so as not to interfere with federal patent policies.

Even if the history of the UTSA did not reveal a clear intent to change trade secret law, the mere fact that trade secret principles were codified in state laws should have changed the trajectory of and reference points for the future development and application of trade secret law. This is due to the fundamental difference between the common law development of the law and statutory law. The codification of trade secret law into a statute had the effect of limiting the further common law development of trade secret within the confines of the statute itself. Rather than having the freedom to consider general principles of equity and fairness—along with precedents as described in the Restatement First and elsewhere—to determine whether and how to give relief to trade secret claimants, judges in UTSA states are required to read and interpret a statute. Justice Scalia artfully explained the effect of a statute on the common law this way: “All of this [common law development of the law] would be an unqualified good,

²⁴⁵ See *supra* note 244 and accompanying text.

²⁴⁶ See *supra* notes 44, 45 and accompanying text.

²⁴⁷ See *supra* note 43 and accompanying text. See also MILGRIM & BENSON, *supra* note 20, at § 101 (“[The UTSA] largely codified common law but added a few features, such as possible statutory increase of damages and discretionary attorneys fees.”).

were it not for a trend in government that has developed in recent centuries, called democracy.”²⁴⁸

The point is that where a statute defines the requirements and parameters of a tort, judges cannot substitute their view of applicable law for that of state legislators, even if their view finds widespread support in the common law. Rather, in the same way that case precedent can be overruled by courts, courts should consider the extent to which a statute overrules case precedent.

The difference between common law and a statute is perhaps best seen in the case of trade secret law when one examines the competing definitions of a trade secret under the UTSA and the Restatement First. The UTSA definition of a trade secret is very exact and detailed. To be recognized as a trade secret under the UTSA, information must: (1) be secret (i.e., not generally known or readily ascertainable); (2) derive independent economic value from being secret; and (3) be the subject of efforts that are reasonable under the circumstances to maintain the secrecy. If a plaintiff in a trade secret case cannot prove any one of these facts, then he or she does not own a trade secret and cannot bring a successful claim for trade secret misappropriation. In contrast, the Restatement First definition of protectable information is less exacting and more amorphous. This is because, in keeping with the role of a Restatement, the Restatement First is a compilation of factors that different common law courts identified when considering the basic question whether a trade secret claimant’s information deserved protection. According to the drafters of the UTSA, however, this approach proved unpredictable and, in some cases, resulted in the over-protection of information.²⁴⁹ Thus, whereas common law courts applying the Restatement First factors had leeway to rely on the existence of one or more of the six listed factors, judges applying the UTSA must focus on the three requirements of a trade secret under the UTSA.

Another example of how the UTSA changed the common law trajectory of trade secret law is in the area of remedies. Although some courts in some states had awarded the types of remedies that are set forth in the UTSA before the UTSA was adopted, such remedies were not universally recognized. Thus, deserving plaintiffs in trade secret cases often struggled to prove entitlement to injunctive relief or an award of damages. The remedies provisions of the UTSA had the salutary effect of eliminating fights about the availability of remedies so that courts could focus their attention on the merits of the underlying case. This, of course, was a boon to trade secret claimants. However, at the same time the UTSA made it easier for trade secret claimants to prevail by eliminating uncertainty about available remedies, it also made it more difficult to establish a meritorious case by more clearly defining the essential elements of a cause of action.

²⁴⁸ SCALIA, *supra* note 244, at 4.

²⁴⁹ See *supra* note 106 and accompanying text.

Under the UTSA, any uncertainty about whether a trade secret claimant must prove both the existence of a trade secret and misappropriation has been eliminated.

As a whole, the UTSA attempts to strike the classic balance between free competition on one hand and the prevention of unfair competition on the other. Thus, to ignore any provision of the UTSA in favor of common law principles as expressed in the Restatement First puts this balance at risk. This is not to say that there is no role for courts to play in the interpretation and application of the UTSA. Although the UTSA filled many of the gaps in trade secret law that were not settled by common law courts, it left places where some discretion and flexibility is allowed. The freedom to determine what constitutes “reasonable efforts” is one obvious example. Courts are also allowed to add to the illustrative lists of improper and proper means.

VI. CONCLUSION

The history of the UTSA reveals the promise of the uniform law making process. Over the course of more than twelve years, a group of dedicated judges, academics, and practicing lawyers carefully studied the state of trade secret law circa 1970 and determined that the pace and course of its evolution could be improved with the adoption of a uniform law. Although the initial impetus behind the project was a desire to solve the *Erie/Sears/Compco* squeeze, ultimately the drafters of the UTSA saw an opportunity to improve trade secret law in a number of ways. Because the individuals who were involved in the process had a range of perspectives on the topic—some favoring the needs of trade secret owners and others favoring the needs of the public or the perspectives of defendants and third parties—and no apparent agenda other than good policy making, the UTSA reflects the important balance that, in theory, all intellectual property laws seek to achieve: a balance between IP protection on one hand and free competition on the other. As a result, although the careful application of the UTSA may result in the inability of a business to protect information that it deems valuable, that is by design. Pursuant to the well-established policy of the United States, free competition and the dissemination of information is the rule, intellectual property protection is the exception. It is only when a business’s information meets the carefully developed requirements of the UTSA that it should be protected.

